



EMALAHLENI MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2022

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	The provision of services (Electricity and Refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment
Legislation governing the municipality's operations	The Constitution of the Republic of South Africa, 1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005) Division of Revenue Act (Act 1 of 2007)
Mayor and executive committee	
Portfolio	Councillor
Mayor	NK Koni
Speaker	N Mtyobile - (Newly elected 01-11-2021) DS Kalolo - (Last day in office 31 - 10 -2021)
Chief Whip	X Lali - (Newly elected 01-11-2021) N Lali - (Last day in office 31 - 10 -2021)
Executive Councillor	NF Koni
Executive Councillor	S Nyukwana - (Newly elected 01-11-2021) S Liwani - (Last day in office 31 - 10 -2021)
Executive Councillor	Z Bebeza - (Newly elected 01-11-2021) T Kulashe - (Last day in office 31 - 10 -2021)
Executive Councillor	M Tom - (Newly elected 01-11-2021) M Limba - (Last day in office 31 - 10 -2021)
Executive Councillor	X Lali - (Newly elected 01-11-2021) N Mtyobile - (Last day in office 31 - 10 -2021)
Executive Councillor	S Kowa - (Newly elected 01-11-2021) MX Oyiya - (Last day in office 31 - 10 -2021)
Executive management	
Position	Name
Municipal Manager	VC Makedama
Chief Financial Officer (CFO)	X Sikobi
Director - Corporate Services	T Javu
Director - Infrastructure Development and Human Settlements	D Njilo
Director - Planning, Economic Development Tourism and Agriculture	N Mntuyedwa

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General Information

Council members - end of term (Last day in office 31 - 10 -2021)

Nr	Surname	Initials	Nr	Surname	Initials
1	Mrwebi	T	2	Mjezu	K
3	Sixishe	T	4	Mondile	T
5	Kama	N	6	Kulashe	T
7	Ziduli	N	8	Oyiya	M
9	Njadu	X	10	Mahola	Z
11	Tyulu	N	12	Nkuzo	F
13	Mapete	L	14	Ndlela	T
15	Bongo	S	16	Kraqa	N
17	Koni	N	18	Lali	N
19	Liwani	S	20	Qomoyi	M
21	James	N	22	Mtyobile	N
23	Zama	S	24	Mthandeki	L
25	Kalolo	D	26	Greyling	P
27	Nqono	N	28	Paul	L
29	Fatyela	L	30	Limba	M
31	Moshani	Z	32	Makatesi	M
33	Twala	B	34	Bobotyana	C

New Council Members (Elected 01-11-2021)

Nr	Surname	Initials	Nr	Surname	Initials
1	Bangisa	W	2	Oyiya	M
3	Songo	N.M	4	Ndlela	T
5	Malotana	S	6	Matyobeni	V.E
7	Hlanganyana	A	8	Lali	X
9	Mzandisi	U.S	10	Kraqa	N
11	Bidi	Z	12	Qomoyi	M
13	Nyukwana	S	14	Mtyobile	N
15	Macithi	V	16	Maratana	S
17	Nqono	N	18	Mketi	B
19	Qali	Z	20	Mnyuko	V
21	Kowa	S	22	Limba	M.S
23	Sibeko	Y.N	24	Bebeza	Z
25	Twala	B.P	26	Tom	Z
27	Kupiso	S	28	Nkohla	C.P
29	Masiza	M.P	30	Mxathule	B
31	Kulashe	T	32	Koni	N.F
33	Mahola	Z	34	Sibeko	Y.N

Registered head office

Emalahleni Municipality
37 Indwe Road
Lady Frere
5410

Postal address

Private Bag X1161
Lady Frere
5410

Bankers

Standard Bank, 92 Cathcart RD; Komani; 5320

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General Information

Auditors	Auditor-General of South Africa (AGSA)
Demarcation code	EC136
Attorneys	NT Vuba Attorneys and Consultants and Ntsika Pakade Attorneys and Consultants
Preparer	The annual financial statements were internally compiled by: XC Sikobi / M Madikizela

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Annual Financial Statements for the year ended 30 June 2022

Abbreviations

ASB	Accounting Standards Board
CIGFARO	Chartered Institute of Government, Finance, Audit and Risk Officers
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
DSACR	Department of Sport, Arts, Culture and Recreation
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LGSETA	Local Government Services Sector Education and Training Authority
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPAC	Municipal Public Accounts Committee
MPRA	Municipal Property Rates Act
MSIG	Municipal System Improvement Grant
NDPG	Neighbourhood Development And Partnership Grant
SALGA	South African Local Government Association
SAPS	South African Police Services
SCM	Supply Chain Management
SRAC	Sports, Recreation, Arts and Culture
AFS	Annual Financial Statements

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Annual Financial Statements for the year ended 30 June 2022

Municipal Manager's Responsibilities and Approval

The municipal manager is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the municipal manager to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) as well as relevant interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent management judgements and estimates.

I, as the municipal manager acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable us to meet these responsibilities, we have set standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. In the year under review, the systems of internal control have been boosted by municipal ICT infrastructure upgrade and migration. The improved firewall protections, access protocols, encryptions and password complexities have enabled the accounting officer to fulfil this responsibility. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operational risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. This assurance is further supported by the fact that all MSCOA version and patch upgrades were implemented in line with National Treasury's requirements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or deficit.

The annual financial statements are prepared on the basis that the municipality is a going concern and that Emalahleni Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although, I am primarily responsible for the financial affairs of the municipality, this is supported by the municipality's senior management team, external auditors and other oversight governance structures of Council.

I would like to bring to your attention the following material matters to your attention:

I certify that the salaries, allowances and benefits of councillors as disclosed in note 29 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Governments determination in accordance with the Act, that there was no recommendations for any increments by the Minister responsible for local government in light of the COVID19 pandemic.

The annual financial statements were prepared in-house for the second time, with the intention of building internal capacity and skill, and reviewed by Internal Audit, Eastern Cape Provincial Treasury, and the Audit Committee. The oversight role of the political executive has been consistent, and they have ensured that the check and balances are in place to enforce internal legislative compliance.

The annual financial statements have been prepared on the going concern basis, were approved and signed by the accounting officer:


VC Makedama
Municipal manager

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	76 073 396	63 850 996
Receivables from exchange transactions	4	25 286 575	6 278 689
Receivables from non-exchange transactions	5	11 094 914	15 433 149
Other current assets	6	1 614 511	1 461 761
VAT receivable	7	12 217 874	4 844 483
		126 287 270	91 869 078
Non-Current Assets			
Investment property	8	2 106 880	2 366 685
Property, plant and equipment	9	457 588 487	439 255 304
Intangible assets	10	541 593	219 243
Heritage assets	11	182 536	182 536
		460 419 496	442 023 768
Total Assets		586 706 766	533 892 846
Liabilities			
Current Liabilities			
Consumer deposits	12	90 089	77 192
Employee benefits	13	10 938 091	9 788 372
Payables from exchange transactions	14	20 583 716	14 831 058
Payables from non-exchange transactions	15	1 927 864	11 739 531
Other current liabilities		1 960 713	(289 567)
Provisions	16	17 595 539	15 409 076
		53 096 012	51 555 662
Non-Current Liabilities			
Employee benefits	13	13 512 001	13 558 000
Total Liabilities		66 608 013	65 113 662
Net Assets		520 098 753	468 779 184
Net assets presented by:			
Accumulated surplus		520 098 746	468 779 183

* See Note 56

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance for the year ended 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Non-exchange revenue			
Property rates	17	10 977 868	9 892 776
Transfers and subsidies	18	202 761 953	228 120 839
Fines, penalties and forfeits	19	137 567	1 152 862
Interest on receivables	20	1 960 466	1 608 405
Total non-exchange revenue		215 837 854	240 774 882
Exchange revenue			
Services charges - Electricity	21	14 661 872	13 935 644
Services charges - Waste management	21	9 404 954	7 653 906
Rental	22	880 535	208 275
Interests on investments	23	3 981 989	2 273 913
Interest earned from receivables	20	2 878 312	2 663 422
Licenses or permits	24.1	1 144 055	1 436 210
Agency services	25	2 820 432	2 929 178
Operational revenue	26	271 923	557 115
Sales of goods and rendering of services	27	78 063	90 714
Actuarial gain	39	2 746 000	-
Impairment recovery	4&5	-	16 936 244
Total exchange revenue		38 868 135	48 684 621
Total revenue		254 705 989	289 459 503
Expenditure			
Employee related cost	28	(89 770 139)	(85 520 900)
Remuneration of councillors	29	(13 389 309)	(13 442 306)
Bad debts written off	4	-	(8 324 004)
Depreciation, amortisation and impairment	30	(24 465 303)	(30 739 025)
Finance costs	31	(13 810)	(1 366 301)
Bulk Purchases	32	(15 030 431)	(13 184 856)
Inventory consumed	33	(2 233 958)	(3 710 053)
Contracted services	34	(18 805 036)	(16 521 832)
Transfers and subsidies	35	(725 006)	(3 265 496)
Operational Cost	36	(28 926 010)	(23 411 911)
Operating leases	37	(466 898)	(438 792)
Loss on disposal of assets	38	(9 524 983)	(47 829 479)
Impair		(4 481 101)	-
Actuarial loss	39	-	(2 137 000)
Total expenditure		(207 831 984)	(249 891 955)
Surplus for the year		46 874 005	39 567 548

* See Note 56

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Statement of changes in net assets for the year ended 30 June 2022

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	427 972 145	427 972 145
Adjustments		
Correction of errors	13 738 401	13 738 401
Balance at 01 July 2020 as restated*	441 710 546	441 710 546
Surplus for the year	39 567 546	39 567 546
Transfers to / from accumulated surplus for the year	(12 821 951)	(12 821 951)
Increase in revaluation reserve	7 911	7 911
Total changes	26 753 506	26 753 506
Opening balance as previously reported	474 316 927	474 316 927
Adjustments		
Correction of errors	315 131	315 131
Restated* Balance at 01 July 2021 as restated*	474 632 058	474 632 058
Surplus for the year	46 874 003	46 874 003
Transfers to / from accumulated surplus for the year	(1 251 345)	(1 251 345)
Total changes	45 622 658	45 622 658
Balance at 30 June 2022	520 098 746	520 098 746
Note(s)		

* See Note 56

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Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Rate Payers and other		50 511 174	41 149 179
Transfers and Subsidies – Capital		60 756 250	71 796 134
Transfers and Subsidies – Operational		140 851 751	166 876 135
Interest		3 981 989	2 913 528
Payments			
Suppliers and Employees		(191 344 562)	(157 841 115)
Finance charges		(13 810)	(1 366 301)
Transfers and subsidies		(725 006)	-
Net cash from(used) operating activities	40	64 017 786	123 527 560
Cash flows from investing activities			
Payments			
Capital assets		(51 795 386)	(59 262 036)
Cash flows from financing activities			
Receipts			
Increase in consumer deposits		-	-
Increase in other liabilities		-	-
Payments			
Decrease in short term loans		-	(371 872)
Decrease in borrowing long-term		-	(5 833 789)
Net increase/(decrease) in cash		12 222 400	58 059 863
Cash and cash equivalents at year begin		63 850 996	5 791 133
		76 073 396	63 850 996

* See Note 56

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Annual Financial Statements for the year ended 30 June 2022

Comparison of Budget and Actual Amounts for the year ended 30 June 2022

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget adjustments budget	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2022								
Financial Performance								
Property rates	11 000 000	1	11 000 001	11 000 001	10 977 868	(22 133)	100 %	100 %
Service charge	20 000 000	1 000 000	21 000 000	21 000 000	24 066 826	3 066 826	115 %	120 %
Investment revenue	4 000 000	-	4 000 000	4 000 000	3 981 989	(18 011)	100 %	100 %
Transfers recognised - operational	145 851 751	-	145 851 751	145 851 751	143 514 734	(2 337 017)	98 %	98 %
Other own revenue	9 679 761	34 552 263	44 232 024	44 232 024	10 171 353	(34 060 671)	23 %	105 %
Total revenue (excluding capital transfers and contributions)	190 531 512	35 552 264	226 083 776	226 083 776	192 712 770	(33 371 006)	85 %	101 %
Employee costs	(95 935 874)	760 000	(95 175 874)	(95 175 874)	(89 770 139)	5 405 735	94 %	94 %
Remuneration of councillors and employee cost	(13 600 000)	-	(13 600 000)	(13 600 000)	(13 389 309)	210 691	98 %	98 %
Depreciation and asset impairment	(20 000 000)	5 990 400	(14 009 600)	(14 009 600)	(17 722 944)	(3 713 344)	127 %	89 %
Finance charges	(60 000)	-	(60 000)	(60 000)	(13 810)	46 190	23 %	23 %
Materials and bulk purchases	(17 892 880)	(477 890)	(18 370 770)	(18 370 770)	(17 264 389)	1 106 381	94 %	96 %
Transfers and grants	(901 340)	53 833	(847 507)	(847 507)	(725 006)	122 501	86 %	80 %
Other expenditure	(39 405 392)	(48 711 624)	(88 117 016)	(88 117 016)	(48 197 944)	39 919 072	55 %	122 %
Total expenditure	(187 795 486)	(42 385 281)	(230 180 767)	(230 180 767)	(187 083 541)	43 097 226	81 %	100 %
Surplus/(Deficit)	2 736 026	(6 833 017)	(4 096 991)	(4 096 991)	5 629 229	9 726 220	(137)%	206 %
Transfers recognised - capital	52 951 250	7 805 001	60 756 251	60 756 251	59 247 219	(1 509 032)	98 %	112 %
Surplus (Deficit) after capital transfers and contributions	55 687 276	971 984	56 659 260	56 659 260	64 876 448	8 217 188	115 %	117 %
Surplus/(Deficit) for the year	55 687 276	971 984	56 659 260	56 659 260	64 876 448	8 217 188	115 %	117 %
Capital expenditure and funds sources								
Transfers recognised - capital	53 151 000	7 805 000	60 956 000	60 956 000	60 756 250	(199 750)	100 %	114 %
Internally generated funds	3 625 000	(300 000)	3 325 000	3 325 000	154 000	(3 171 000)	5 %	4 %
Total sources of capital funds	56 776 000	7 505 000	64 281 000	64 281 000	60 910 250	(3 370 750)	95 %	107 %

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Comparison of Budget and Actual Amounts for the year ended 30 June 2022

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating				22 933 000	-	22 933 000	22 933 000	64 017 786	41 084 786	279 %	279 %
Net cash from (used) investing				(56 776 000)	-	(56 776 000)	(56 776 000)	(51 795 386)	4 980 614	91 %	91 %
Net cash from (used) financing				-	-	-	-	-	-	- %	- %
Net increase/(decrease) in cash and cash equivalents				(33 843 000)	-	(33 843 000)	(33 843 000)	12 222 400	46 065 400	(36)%	(36)%
Cash and cash equivalents at the beginning of the year				68 000 000	(68 000 000)	-	-	68 000 000	68 000 000	- %	100 %
Cash and cash equivalents at year end				34 157 000	(68 000 000)	(33 843 000)	(33 843 000)	80 222 400	(114 065 400)	(237)%	235 %

The narrations are included in budget information notes on page 107 and the accounting policies on page 20 form an integral part of the annual financial statements.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

Basis of preparation

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, is disclosed below:

1. Summary of significant accounting policies

These standards are summarised as follows:

Reference	Description
GRAP Framework	Framework for the preparation and presentation of financial statements
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 20	Related Party Disclosures (Revised)
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 31	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources
IGRAP 1	Applying The Probability Test On Initial Recognition Of Revenue
IGRAP 2	Changes in Existing Decommissioning Restoration and Similar Liabilities
IGRAP 3	Determining Whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 10	Assets Received from Customers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IGRAP 16	Intangible Assets – Website Costs
IGRAP 18	Recognition and Derecognition of Land
IGRAP 19	Liabilities to Pay Levies
IGRAP 20	Accounting for Adjustments to Revenue
IFRIC 12	Service Concession Arrangements
SIC 29	Disclosure Service Concession
Directive 1	Deletion of Transitional Provisions in Standards of GRAP
Directive 5	GRAP Reporting Framework
Directive 7	The Application of Deemed Cost

Accounting policies for material transactions, events or conditions not covered by the above GRAP standards have been developed in accordance with GRAP 3. Where required, accounting policies were developed for standards of GRAP that have been issued by the Accounting Standards Board, but for which an effective date have not been determined by the Minister of Finance.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.1 New standards and interpretations

Standards, amendments to standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 18 on Segment Reporting is effective for the reporting periods beginning on or after 1 July 2020. GRAP 18 establishes principles for the reporting of financial information by segments. The municipality has adopted this Standard in the current reporting period.

GRAP 20 on Related Party Disclosures is effective for the reporting periods beginning on or after 1 July 2019. GRAP 20 identifies disclosures necessary for the users of the annual financial statements to consider the impact (if any) that transactions and outstanding balances with related parties have on the municipality's surplus or deficit and financial position. The municipality has already based its accounting policies and disclosures on this standard, and there is therefore no further impact on the annual financial statements when this standard becomes effective.

GRAP 32 on Service Concession Arrangements: Grantor is effective for the reporting periods beginning on or after 1 July 2019. GRAP 32 prescribes the accounting for service concession arrangements by the grantor (a municipality). The municipality has not entered into any service concession arrangements to date and will therefore not be immediately affected by the Standard when it becomes effective.

GRAP 108 on Statutory Receivables is effective for the reporting periods beginning on or after 1 July 2019. GRAP 108 prescribes the accounting requirements for the recognition, measurement, presentation and disclosure of receivables that arise from legislation, supporting regulation for similar means and require settlement by another entity in cash or another financial asset. The municipality has already based its accounting policies and disclosures on this standard, and there is therefore no further impact on the annual financial statements when this standard becomes effective.

GRAP 109 on Accounting by Principals and Agents is effective for the reporting periods beginning on or after 1 July 2019. GRAP 109 outlines principles to be used in assessing whether the municipality is a party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such arrangement. The application of this standard will require additional disclosures, as prescribed, when effective.

IGRAP 17 on Service Concession Arrangements is effective for the reporting periods beginning on or after 1 July 2019. This interpretation has no impact on the municipality as it has not entered into any service concession arrangements.

IGRAP 18 on Recognition and Derecognition of Land is effective for the reporting periods beginning on or after 01 April 2019. This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in the municipality's annual financial statements. It also considers joint control of land by more than one entity. When the municipality concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the municipality applies the applicable Standard of GRAP to account for the land once control of the land has been determined. The municipality also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP. In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

IGRAP 19 on Liabilities to Pay Levies is effective for the reporting periods beginning on or after 1 July 2019. This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the annual financial statements of the municipality that is paying the levy. It clarifies when municipalities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that a municipality has a present obligation to pay a levy that will be triggered by operating in a future period?

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Accounting Policies

1.1 New standards and interpretations (continued)

- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Standards, amendments to standards and interpretations issued, but not yet effective

At the date of authorisation of these annual financial statements, the following GRAP Standards (including Interpretations and Directives) have been issued, but are not yet effective for the year presented and have not been early adopted by the municipality:

GRAP 18 on Segment Reporting is effective for the reporting periods beginning on or after 1 July 2020. GRAP 18 establishes principles for the reporting of financial information by segments. The municipality has early adopted this Standard in current reporting period.

GRAP 110 on Living and Non-Living Resources is effective for the reporting periods beginning on or after 1 July 2020. GRAP 110 prescribes the recognition, measurement, presentation and disclosure requirements for living resources as well as disclosure requirements for non-living resources. The application of this standard will not have a material impact on the annual financial statements of the municipality when effective.

All other standards as listed above will only be effective on the date it is announced by the Minister of Finance.

The Accounting Standards Board Directive 5 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board or, International Financial Reporting Standards. Where a standard of GRAP has been issued, but is not in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying the Standards of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Management has considered all of the above-mentioned GRAP standards issued but not effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and all values are rounded to the nearest rand.

1.3 Going concern assumption

These annual financial statements were prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Offsetting

Financial assets and liabilities are offset and the net amount reported on the Statement of financial position only when there is a legally enforceable right to set off the recognised amount, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.5 Comparative of actual information to budgeted information

The annual budget figures have been prepared in accordance with the Municipal Budget and Reporting Regulations, 2009. A comparative of actual to budgeted amounts are reported in a separate additional financial statement, called the Statement of comparison of budget and actual amounts. Explanatory comment is provided in the notes to the statement giving motivations for over- or under spending on line items where it is found to be material. The budgeted figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is prepared and approved on an accrual basis by nature classification. The approved budget covers the period from 01 July 2021 to 30 June 2022.

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Accounting Policies

1.5 Comparative of actual information to budgeted information (continued)

In general, a difference of 10% or more is considered material, although the surrounding circumstances are taken into account if it could influence the decisions or assessments of the users of the annual financial statements in determining whether a difference between the budgeted and actual amount is material.

1.6 Current year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

1.7 Significant judgements and sources of estimation uncertainty

In the application of the entity's accounting policies, which are described below, outstanding balances is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered too reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

EMALAHLENI MUNICIPALITY

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Accounting Policies

1.7 Significant judgements and sources of estimation uncertainty (continued)

1.7.1 Judgements

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in the annual financial statements:

Materiality

Materiality is judged by reference to the size and nature of the item. The deciding factor is whether the omission or misstatement could, individually or collectively, influence the decisions that users make on the basis of these annual financial statements.

In preparation of the annual financial statements materiality has been considered in:

- Deciding what to report in the annual financial statements and how to present it.
- Assessing the effect of omissions, misstatements and errors on the annual financial statements

In assessing whether an item, transaction or event is material, specific thresholds for specific items, transactions and events, or aggregations thereof has been developed. These thresholds are used to make decisions about the reporting of information (i.e. how to recognise, measure, present and disclose items, transactions and events), and used as a margin of error or framework within which to assess misstatements and errors.

The municipality has also considered whether certain transactions or balances may be qualitatively material based on the inherent characteristics thereof, even though the transaction or balance is quantitatively immaterial, if:

- The item, transaction or event relates to legal or regulatory requirements.
- Related party transactions.
- The regularity or frequency with which an item, transaction or event occurs.
- The item, transaction or event results in the reversal of a trend.
- The item, transaction or event is likely to result in a change in accounting policy.
- The commencement of a new function, or the reduction or cessation of an existing function.
- The degree of estimation or judgement that is needed to determine the value of an item, transaction or event.
- An item, transaction or event that affects the going concern assumption of the municipality.

Lease classification – Municipality as lessor

The municipality has entered into commercial property leases on its investment property portfolio. The municipality has determined that it retains all the significant risks and rewards of ownership of these properties, and so accounts for them as operating leases.

Lease classification – Municipality as lessee

The municipality has entered into a number of leases for office equipment. In determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the municipality.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. The municipality has exercised its judgement on the appropriate classification of equipment leases, and has determined a number of lease arrangements are finance leases.

Criteria for the classification of properties as investment property rather than property, plant and equipment, when classification is difficult

All properties held to earn market-related rentals or for capital appreciation or both and that are not for administrative purposes and that will not be sold in the ordinary course of operations are classified as investment property.

Land held for currently undetermined future use

Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment property. The rental revenue generated is incidental to the purposes for which the property is held.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.7 Significant judgements and sources of estimation uncertainty (continued)

Componentisation of infrastructure assets

Repairs and maintenance is based on management's own judgement of costs incurred in cost centres responsible for the maintenance and repair of municipality owned assets. This includes internal charges (inter departmental charges) such as internal transport costs, charged out to the different departments.

Determination of repairs and maintenance cost

All infrastructure assets, acquired before the adoption of GRAP where the acquisition cost could not be obtained, with significant components relating to different useful lives are unbundled into their components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market replacement cost of each component, depreciated for age and condition and recalculated to deemed cost at the acquisition date if known or to the date of initially adopting the standards of GRAP. All infrastructure assets acquired after the adoption of GRAP with significant components relating to different useful lives are unbundled into their components based on the actual expenditure incurred.

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Accounting Policies

1.7 Significant judgements and sources of estimation uncertainty (continued)

1.7.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Pension and other post-employment benefits

The cost of defined benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Classification of financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. The Accounting Policy on Financial Instruments describes the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

Impairment of financial assets

The Accounting Policy on Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considers the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of fine receivables (receivables from non-exchange transactions) is based on an assessment of the past payment history of fines per category.

The formula used per individual debtor is as follows:

Receipts for the year/Opening balance + Annual levies + Adjustments = Payment rate

None payment Rate = 100% - Payment rate. Municipal and Government accounts have 0% impairment as no risk prevails

Review of useful lives of property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers whether there is any indication that expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. These include changes in the composition, condition and nature of the asset, its susceptibility and adaptability to changes in technology and processes, the nature of the processes and environment in which the asset is deployed availability of funding to replace the asset and changes in the market in relation to the asset, as well as planned repairs and maintenance including refurbishments.

Impairment of property, plant and equipment, intangible assets, heritage assets and inventory

The Accounting Policies on impairment of cash and non-cash generating assets as well as inventory describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to the impairment of property, plant and equipment, intangible assets and heritage assets and the write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-cash generating assets.

Provisions and contingent liabilities

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.7 Significant judgements and sources of estimation uncertainty (continued)

Management judgement is required when recognising and measuring provisions, and when measuring contingent liabilities. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers. The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money. The increase in the rehabilitation provision due to passage of time is recognised as finance cost in the Statement of financial performance.

Revenue recognition

The Accounting Policies on Revenue from Exchange Transactions and Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions.

In particular, in regard to revenue from exchange revenue - when goods are sold, whether the management had transferred to the buyer the significant risks and rewards of ownership of the goods; and, when services are rendered, whether the service has been rendered.

Presentation of Budget information

The materiality framework of the municipality informs the determining base ranges. The framework outlines all principles and guiding practices to allow management to enforce a consistent application of the framework's guidelines. With regard to reporting, the understandability and transparency to users of the financial statements was a determining factor when deciding on the base %.

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting regulations format. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, ie 1 July 2020 to 30 June 2020. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts
- actual amounts and final budget amounts

Explanations for differences between the approved and final budget are included in the Statement of Comparison between budget and actual amounts.

Explanations for material differences between the final budget amounts and actual amounts are included in the statement of Comparison of budget and actual Amounts. Material differences are being defined by management as 10% of a specific line-item with a minimum of R1 million.

Disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

1.8 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.9 Investment property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Investment property also includes land held for an undetermined future use.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Initial recognition

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for a currently undetermined future use;
- A building owned (or held by under a finance lease) and leased out under one or more operating leases;
- Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held;
- A building that is vacant but is held to be leased out under one or more operating leases;
- Property that is being constructed or developed for future use as investment properties.

Subsequent measurement – cost model

Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a --year period. All useful lives of investment properties are reviewed annually on an indicator basis.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset are depreciated separately.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
	0
Buildings	20-100 years

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.9 Investment property (continued)

Derecognition/Disposal

Investment properties are derecognised (eliminated from the Statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of financial performance.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value [or carrying amount if cost model is used] at the date of change in use. If owner-occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from it's disposal.

1.10 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 Significant judgements and sources of estimation uncertainty (continued)

Initial recognition and measurement

Property, plant and equipment are initially recognised at cost on its acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent measurement – cost model

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property, plant and equipment, excluding land and buildings, are measured at cost, less accumulated depreciation and accumulated impairment losses.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 Significant judgements and sources of estimation uncertainty (continued)

Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated using the straight line method, to allocate their cost or revalued amounts less their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets' future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation rates are based on the following estimated useful lives:

Item	Depreciation method	Average useful life
Land	Straight-line	indefinite
Machinery and equipment	Straight-line	1-25 years
Furniture and office equipment	Straight-line	1-40 years
Transport assets	Straight-line	1-55 years
Computer equipment	Straight-line	1-25 years
Community assets	Straight-line	4-30 years
Other property, plant and equipment	Straight-line	6-99 years
Capital restoration asset	Straight-line	5-30 years
Electrical infrastructure	Straight-line	10-50 years
Water supply infrastructure	Straight-line	10-100 years
Solid waste infrastructure	Straight-line	10-30 years
Roads infrastructure	Straight-line	10-100 years
Information and communication infrastructure	Straight-line	3-15 years
Waste water network	Straight-line	10-100 years
Stormwater infrastructure	Straight-line	10-50 years

The estimated useful life, residual values and depreciation method are assessed at each reporting date on an indicator basis.

The useful lives, residual values and depreciation method are reviewed annually at the end of the financial year where there is any indication that the municipality's expectations about the residual amount and the useful life of an asset has changed since the preceding reporting date. Any adjustments arising from the annual review are applied prospectively.

Depreciation of an asset commences when the asset is ready for its intended use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is ready for use.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying values of assets (Cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of financial performance as a gain or loss on disposal of property, plant and equipment.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the Cash flow statement.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 Significant judgements and sources of estimation uncertainty (continued)

Site rehabilitation and restoration costs

Where the municipality has an obligation to rehabilitate and restore items of property, plant and equipment such obligations are referred to as "rehabilitation provisions". The cost of an item of property, plant and equipment includes the initial estimate of the costs of rehabilitation and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period.

As the related asset is measured using the cost model: -

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.11 Heritage assets

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

The municipality classifies assets as heritage assets where the significance as a heritage asset can be determined. In regards to land and buildings all graded sites are classified heritage assets. Furthermore land with a natural significance is not componentised but seen as a single heritage asset due to all parts contributing together to make up its significance.

Land and buildings that qualify as heritage asset, but of which a significant portion of that land and buildings is held for use in the production or supply of goods or services or for administrative purposes, are recognised as property, plant and equipment, rather than heritage asset.

Initial recognition and measurement

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets (excluding heritage assets which are land and buildings) are measured at cost less accumulated impairment losses. Heritage assets are not depreciated.

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1.11 Heritage assets (continued)

Derecognition

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of financial performance as a gain or loss on disposal of heritage assets.

1.12 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

Item	Depreciation method	Average useful life
Computer software	Straight-line	2 - 10 years
Computer Software Licenses	Straight-line	2 - 10 years

Initial recognition and measurement

Intangible assets are initially recognised at cost. The cost of an intangible assets is the purchase price and other costs attributable to bring the intangible assets to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible assets is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

Subsequent measurement

Amortisation is calculated on cost, using the straight-line method, over the useful lives of the assets, which is estimated to be between 3 to 5 years upon initial recognition. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible assets is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of financial performance.

1.13 Borrowing costs

Borrowing costs are recognised as an expense in the Statement of financial performance in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised to the cost of the asset. All other borrowing costs are recognised as an expense in the period in which it is incurred. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is disclosed in the notes below.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

1.14 Impairment of property, plant and equipment, investment property, intangible assets and heritage assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

Impairment of non-cash-generating assets

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1.14 Impairment of property, plant and equipment, investment property, intangible assets and heritage assets (continued)

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.15 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity. Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The municipality determines the classification of its financial instruments at initial recognition.

A financial instrument is recognised if the entity becomes a party to the contractual provisions of the instrument.

1.15.1 Classification of financial instruments

Financial assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial asset at amortised cost being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Financial assets measured at fair value being financial assets that meet either of the following conditions:

- Derivatives;
- Combined instruments that are designated at fair value;
- Instruments held for trading;
- Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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1.15 Financial instruments (continued)

Financial assets measured at cost being investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The municipality has the following types of financial assets as reflected on the face of the Statement of financial position or in the notes thereto:

Type of financial asset	Classification in terms of GRAP 104
Finance lease receivables	Financial assets at amortised cost
Long-term receivables	Financial assets at amortised cost
Current portion of long-term receivables	Financial assets at amortised cost
Consumer debtors	Financial assets at amortised cost
Other debtors	Financial assets at amortised cost
Bank balances and cash	Financial assets at amortised cost

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets at amortised cost.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of financial liabilities and the classification determining how they are measured exist:

- Financial liabilities measured at amortised cost; or
- Financial liabilities measured at fair value.

The municipality has the following types of financial liabilities as reflected on the face of the Statement of financial position or in the notes thereto:

Type of financial liability	Classification in terms of GRAP 104
Long-term liabilities	Financial liability at amortised cost
Current portion of long-term liabilities	Financial liability at amortised cost
Other creditors	Financial liability at amortised cost
Bank overdraft	Financial liability at amortised cost

Any other financial liabilities should be classified as financial liabilities at amortised cost.

1.15.2 Initial and subsequent measurement

Initial recognition and measurement

A financial instruments is recognised, when the municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instruments not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instruments are added or deducted from the fair value, as appropriate on initial recognition.

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Accounting Policies

1.15 Financial instruments (continued)

Subsequent measurement – Financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

Receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of financial performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of financial performance.

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of financial performance.

Financial assets at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to municipal entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as financial assets at amortised cost.

Financial assets measured at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the Statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the Statement of financial performance.

Subsequent measurement – Financial liabilities

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of financial performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

1.15.3 Impairment of financial assets

Consumer debtors

Consumer debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

Other debtors

Other debtors are reviewed individually considering payment histories and disputes about certain amounts. Provision for impairment is made accordingly.

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Accounting Policies

1.15 Financial instruments (continued)

1.15.4 Derecognition

Financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expires or it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial assets, the municipality continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The municipality derecognises financial liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

1.16 Provisions

Provisions are recognised when the municipality has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of financial performance as a finance cost as it occurs.

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Accounting Policies

1.16 Provisions (continued)

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of financial performance.

At year end a provision is raised for the rehabilitation of landfill sites. The provision is the net present value of the future cash flows to rehabilitate damaged land at year end.

As the related asset is measured using the cost model

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustments result in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may be fully recoverable. If there is such an indication, the municipality tests the asset for the impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in the accounting policy on impairment of cash-generating assets and/ or impairment of non-cash generating assets.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

1.17 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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Accounting Policies

1.17 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

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Accounting Policies

1.17 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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Accounting Policies

1.17 Employee benefits (continued)

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

The municipality provides post-retirement health care benefits upon retirement to some retirees. The entitlement to postretirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

Other long term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

The municipality has an obligation to provide long term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

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1.17 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.18 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Municipality as lessee

Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent. Corresponding liabilities are included in the Statement of financial position as Finance Lease Obligations. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on the straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Municipality as lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

1.19 Statutory receivables

1.19.1 Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The municipality has the following major categories under the ambit of statutory receivables:

- VAT receivables

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Accounting Policies

1.19 Statutory receivables (continued)

- Rates debtors
- Traffic fine debtors
- Availability charges debtors:

1.19.2 Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

1.19.3 Measurement

The municipality initially measures statutory receivables at their transaction amount.

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

1.19.4 Impairment

Statutory receivables, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Statutory receivables are impaired where there is objective evidence of impairment of Statutory receivables (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 108.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

According to GRAP 108, the assessment for impairment needs to be made for each individual financial asset separately or for groups of statutory receivables with similar credit risks. The following methodology was followed to make a provision for bad debts for the year under review:

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

Rates debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

1.19.5 Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers control of the statutory receivable and substantially all the risks and rewards of ownership of the asset to another entity; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

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1.19 Statutory receivables (continued)

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.20 Revenue

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Recognition and measurement

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.20 Revenue (continued)

1.20.1 Revenue from exchange transactions

Service charges

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale.

Interest earned and rentals received

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Traffic charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licenses and permits.

Income from agency services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue recognition of unclaimed deposits

Unclaimed deposits older than three (3) years are recognised as revenue.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.20 Revenue (continued)

1.20.2 Revenue from non-exchange transactions

Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the municipality is entitled to collect.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies

Unconditional grants

Equitable share allocations are recognised in revenue when the equitable share trenches are received from the revenue fund throughout the financial year.

Conditional grants

Conditional grants recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of financial performance.

Services received in-kind

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.21 Transfers and subsidies – non-exchange expenditure

The municipality transfers money to individuals, organisations and other sectors of government from time to time. These transfers are recognised in the annual financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.22 Related parties and related party transactions

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Related parties include key management personnel, close members of family of key management and councillors.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Key management personnel include all heads of department or members of the municipal council of the reporting municipality where that council has jurisdiction. The Council, together with the Municipal Manager and Section 57 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of municipal objectives.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.23 Principal-agent arrangements

The municipality is party to a principal-agent arrangement for [include details here]. In terms of the arrangement the municipality is the and is responsible for [include details here].

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.23 Principal-agent arrangements (continued)

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.24 Value Added Tax

The municipality is registered with the South African Revenue Service (SARS) for Value Added Tax on the payments basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

Revenue, expenses, and assets are recognised net of the amounts of Value Added Tax as per VAT legislation. The net amounts (recoverable or payable) of VAT are submitted to SARS on monthly and are reported as a receivable or a payable on the statement of Financial Position on the Annual Financial Statements. The municipality is registered for VAT with SARS on the payment basis.

1.25 Transfers and subsidies expenditure

The municipality buys and transfers goods to individuals or groups in the community, organizations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.25 Transfers and subsidies expenditure (continued)

- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the annual financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.26 Unauthorised expenditure

Section 1 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA), defines Unauthorised expenditure as follows:

- Overspending of the total amount appropriated in the municipality's approved budget;
- Overspending of the total amount appropriated for a vote in the approved budget;
- Expenditure from a vote unrelated to the department or functional area covered by the vote;
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- Spending of an allocation referred to in the above paragraphs of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- A grant by the municipality otherwise than in accordance with this Act.

Section 1 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) also defines a Vote as:

- One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

The municipality uses the Municipal Standard Chart of Accounts (mSCOA) Functions and Sub-functions, previously the Government Finance Statistics (GFS) functions, as well as departments as the main groupings of segments of the municipality's budget segments within the municipality are grouped per department to facilitate greater accountability and budget implementation by the respective Executive Directors as well as per mSCOA classification to facilitate comparisons on a higher level.

All expenditure relating to unauthorised expenditure is recognised as an expense in the Statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.27 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act 56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of financial performance and where recovered, it is subsequently accounted for as revenue in the Statement of financial performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.27 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Additional disclosure for irregular expenditure is disclosed in note 44.2.

1.28 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of financial performance.

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Additional disclosure for fruitless and wasteful expenditure is disclosed in note 44.3.

1.29 Change in accounting policies, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Details of changes in accounting policies, changes in estimates and correction of errors are disclosed in the notes to the annual financial statements where applicable.

1.30 Contingent assets and contingent liabilities

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the municipality.

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Accounting Policies

1.31 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

The reportable segments identified are those functional segments reported in the Government Finance Statistics (GFS's) format and the municipal vote (Departmental) format per the monthly section 71 management reports. The information that will be reported is aligned to the monthly section 71 reports which are reviewed by the executive management. The GFS's format allows for universal comparability of segments. The main factors considered in selecting the segments were the level of comparability with other preparers and a level of aggregation that does not detract from presenting the separate revenue or service delivery components.

The municipality uses the municipal vote (departmental) as primary and the GFS as secondary segment reporting levels.

The assets and liabilities are not reviewed at all on a segregated basis.

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.32 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.33 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.33 Provisions (continued)

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

The disclosure for commitments in the AFS includes only the capital commitments.

1.34 Disclosure in term of Section 45 of the municipal Supply Chain Management Regulation

The notes to the annual financial statements of a municipality must disclose particulars of any award of more than R2 000 to a person who is a spouse, child, or parent of such a person in the service of the state, or has been in the service of the state in the previous twelve months.

1.35 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.36 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

In general, a difference of 10% or more is considered material, although the surrounding circumstances are taken into account if it could influence the decisions or assessments of the users of the annual financial statements in determining whether a difference between the budgeted and actual amount is material.

All comparisons of the budget and actual amounts shall be presented on a comparative basis to the budget. Comparative information includes the following:

- the approved and final amounts;
- actual amounts and final budget amounts.

1.37 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surplus realised during a specific financial year is credited against the accumulated surplus.

Prior year adjustments, relating to income and expenditure are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

1.38 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

EMALAHLENI MUNICIPALITY

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Accounting Policies

1.38 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

- * Assets acquired by the municipality are mainly used as per the municipality's mandate for service delivery purposes to customers that pay for the services but also to indigents. As the assets that are used for service delivery are similar, assets that generate cash flows cannot be distinguished from the non-cash generating assets and therefor are distinguished as non-cash generating.
- * In the event that the assets that generate cash flows can be clearly identified the assets will be designated as cash-generating.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.38 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.39 Unspent conditional grants

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent where the obligations have not been met, a liability is recognised.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2009	Unlikely there will be a material impact
• GRAP 25 (as revised): Employee Benefits	01 April 2009	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2009	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2025	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

3. Cash and cash equivalents

3.1 Cash and cash equivalents

Cash and cash equivalents consist of the following:

Call deposits and investments

Deposit taking institutions	29 590 074	32 098
Special deposit for the payment of interest	37 572 675	51 306 103
	67 162 749	51 338 201
Cash at bank		
Bank account	8 909 194	12 511 342
Cash on hand	1 453	1 453
Total cash and cash equivalents	76 073 396	63 850 996

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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3. Cash and cash equivalents (continued)

3.2 Difference between cash book and bank statement

2022

	Cash book	Bank statement
Standard Bank - Primary Account - 082-665-958	5 073 486	5 073 486
Standard Bank - Debit Order Account - 061 330 302	318 584	318 584
Standard Bank - Current Account - 082-603-631	3 517 124	3 517 124
Investec Account Number: 1100-465258	1 076 974	1 076 974
Standard Bank Account number: 08 879 9697 - 001	202 057	202 057
Standard Bank Account number: 08 879 9697 - 012	11 481	11 481
ABSA Bank Account number: 93-6256-7503	63 637	63 637
ABSA Account Number: 93 5890 7006	7 074	7 074
Standard Bank Account number: 08 879 9697 - 022	32 436	32 436
Standard Bank Account number: 08 879 9697 - 025	15 782 387	15 782 387
Standard Bank Account number: 08 879 9697 - 020	20 429 065	20 429 065
Standard Bank Account number: 08 879 9697 - 021	15 316 752	15 316 752
Standard Bank Account number: 08 879 9697 - 023	14 240 886	14 240 886
	76 071 943	76 071 943

2021

	Cash book	Bank statement
Standard Bank - Primary Account - 082-665-958	10 466 930	10 466 930
Standard Bank - Debit Order Account - 061 330 302	271 201	271 201
Standard Bank - Current Account - 082-603-631	1 773 211	1 773 211
Investec Account Number: 1100-465258	1 031 576	1 031 576
Standard Bank Account number: 08 879 9697 - 001	202 057	202 057
Standard Bank Account number: 08 879 9697 - 012	11 382	11 382
ABSA Bank Account number: 93-6256-7503	44 713 995	44 713 995
ABSA Account Number: 93 5890 7006	5 347 093	5 347 093
Standard Bank Account number: 08 879 9697 - 022	32 098	32 098
	63 849 543	63 849 543

4. Receivables from exchange transactions

Consumer receivables from exchange transactions

Electricity	4.1	2 744 806	3 568 928
Waste management		20 767 357	2 287 841
Service charges		23 349	-
		23 535 512	5 856 769

Other receivables from exchange transactions

Prepayments and advances	4.2	1 216 789	170 286
Property rental debtors		534 274	251 634
		1 751 063	421 920

Total receivables from exchange transactions

	25 286 575	6 278 689
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The amount disclosed in this note is net of impairment. Refer to note 4.1 & 4.2 for the amount before the provision (gross) and the actual value of the provision.

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4. Receivables from exchange transactions (continued)

4.1 Consumer receivables

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4. Receivables from exchange transactions (continued)

Controlling entity

	2022			2021		
	Gross	Impairment	Total	Gross	Impairment	Total
Consumer receivables from exchange transactions						
Electricity	9 158 522	(6 413 716)	2 744 806	9 264 222	(5 695 294)	3 568 928
Waste management	43 243 983	(22 476 626)	20 767 357	33 259 351	(30 971 510)	2 287 841
Service charges	23 349	-	23 349	-	-	-
Total consumer receivables from exchange transactions	52 425 854	(28 890 342)	23 535 512	42 523 573	(36 666 804)	5 856 769

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4. Receivables from exchange transactions (continued)

4.1.1 Ageing of consumer receivables

2022

Consumer receivables from exchange transactions

Total by debt type

Electricity
Waste management
Service charges

Total by debt type

2021

Consumer receivables from exchange transactions

Total by debt type

Electricity
Waste management

Total by debt type

	Not due					Past due		
	Total	Current	30 days	60 days	90 days	120+ days		
9 158 522		274 645	188 522	130 687	148 158	8 416 510		
43 243 983		1 284 689	1 243 308	1 385 926	1 043 935	38 286 125		
23 349		23 349	-	-	-	-		
52 425 854	1 582 683	1 431 830	1 516 613	1 192 093	46 702 635			

	Not due					Past due		
	Total	Current	30 days	60 days	90 days	120+ days		
9 264 222		638 569	376 559	184 690	160 036	7 904 368		
33 259 351		770 957	733 603	709 794	684 826	30 360 171		
42 523 573	1 409 526	1 110 162	894 484	844 862	38 264 539			

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4. Receivables from exchange transactions (continued)

4.1.2 Impairment reconciliation of consumer receivables

	2022				2021		
	Opening balance	Impairment raised	Impairment reversed / debt written off	Closing balance	Opening balance	Impairment raised	Closing balance
Consumer receivables from exchange transactions							
Electricity	5 695 294	718 422	-	6 413 716	4 319 224	1 376 070	5 695 294
Waste management	23 332 081	-	(855 455)	22 476 626	30 971 510	-	30 971 510
Total consumer receivables	29 027 375	718 422	(855 455)	28 890 342	35 290 734	1 376 070	36 666 804

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4. Receivables from exchange transactions (continued)

4.1.3 Ageing of impaired consumer receivables

2022

	Not due					Past due		
	Total	Current	30 days	60 days	90 days	120+ days		
Consumer receivables from exchange transactions								
Aging by debt type								
Electricity	6 413 716	192 359	132 040	91 533	103 769	5 894 015		
Waste management	22 476 626	679 584	657 694	733 137	552 228	19 853 983		
Total by debt type	28 890 342	871 943	789 734	824 670	655 997	25 747 998		

2021

	Not due					Past due		
	Total	Current	30 days	60 days	90 days	120+ days		
Consumer receivables from exchange transactions								
Aging by debt type								
Electricity	5 695 294	398 241	234 839	115 181	99 806	4 847 227		
Waste management	30 971 510	542 411	516 131	499 380	481 813	28 931 775		
Total by debt type	36 666 804	940 652	750 970	614 561	581 619	33 779 002		

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4. Receivables from exchange transactions (continued)

4.2 Other receivables from exchange transactions

	2022			2021		
	Gross	Impairment	Total	Gross	Impairment	Total
Property rental debtors	900 067	(365 793)	534 274	537 491	(285 857)	251 634

4.2.1 Ageing of other receivables from exchange transactions

2022

	Not due			Past due		
	Total	Current	30 days	60 days	90 days	120+ days
Property rental debtors	900 067	157 828	50 504	27 735	27 701	636 299

2021

	Not due			Past due		
	Total	Current	30 days	60 days	90 days	120+ days
Property rental debtors	537 491	22 027	21 865	21 776	21 752	450 071

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4. Receivables from exchange transactions (continued)

4.2.2 Impairment reconciliation of other receivables from exchange transactions

	2022			2021		
Property rental debtors	Opening balance	Impairment raised	Closing balance	Opening balance	Impairment raised	Closing balance
	285 857	79 936	365 793	285 857	79 936	365 793

4.2.3 Ageing of other impaired receivables from exchange transactions

2022

Property rental debtors	Not due		Past due		
	Total	Current	30 days	60 days	90 days
	365 793	64 142	20 525	11 271	11 258
					120+ days
					258 597

2021

Property rental debtors	Not due		Past due		
	Total	Current	30 days	60 days	90 days
	285 857	11 715	11 629	11 581	11 568
					120+ days
					239 364

5. Receivables from non-exchange transactions

Consumer receivables

Property rates

5.1

11 030 470 15 433 149

Other receivables

Unauthorised, irregular, fruitless and wasteful expenditure

Total receivables

64 444 -

11 094 914 15 433 149

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5. Receivables from non-exchange transactions (continued)

5.1 Receivables from non-exchange transactions

	2022			2021		
	Gross	Impairment	Total	Gross	Impairment	Total
Consumer receivables						
Property rates	30 346 734	(19 316 264)	11 030 470	30 211 215	(14 778 066)	15 433 149
Other receivables						
Unauthorised, irregular, fruitless and wasteful expenditure	64 444	-	64 444	-	-	-
Total	30 411 178	(19 316 264)	11 094 914	30 211 215	(14 778 066)	15 433 149

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5. Receivables from non-exchange transactions (continued)

5.1.1 Ageing of receivables from non-exchange transactions

2022

	Not due			Past due		
	Total	Current	30 days	60 days	90 days	120+ days
Consumer receivables						
Property rates	30 411 178	229 824	660 290	576 040	541 926	28 403 098
Other receivables						
Unauthorised, irregular, fruitless and wasteful expenditure	64 444	64 444	-	-	-	-
	30 475 622	294 268	660 290	576 040	541 926	28 403 098

2021

	Not due			Past due		
	Total	Current	30 days	60 days	90 days	120+ days
Consumer receivables						
Property rates	30 211 215	154 639	669 433	646 197	942 660	27 798 286

Statutory receivables general information

Transaction(s) arising from statute

Property rates related transactions arise in terms of the Municipal Property Rates Act, 6 of 2004, Municipal Finance Management Act, 56 of 2003, as well as the Property Rates Policy of the municipality approved by Council as part of the Budget Process.

VAT transactions arise from the Value Added Tax Act 89 of 1991. VAT is an indirect tax on the consumption of goods and services in the economy. VAT is levied on all goods and services subject to certain exemptions, exceptions, deductions and adjustments provided for in the Value Added Tax Act 89 of 1991.

Determination of transaction amount

Property rates transaction amounts are determined in line with the Annual Tariff List of the municipality approved by Council as part of the Budget Process in terms of the Municipal Finance Management Act, 56 of 2003.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

VAT transactions amounts are determined in line with the Value Added Tax Act 89 of 1991. VAT increased from 14% to 15% from 1 April 2018.

Determination of transaction amount

Property rates transaction amounts are determined in line with the Annual Tariff List of the municipality approved by Council as part of the Budget Process in terms of the Municipal Finance Management Act, 56 of 2003.

The municipality records the revenue from property rates as per the monthly billing. The receivable balance is then tested for impairment and the appropriate impairment is recognised through the statement of financial performance. Where settlement discounts or reductions in the amount payable are offered, the municipality treats such reductions as a reduction in the revenue for the period.

VAT transactions amounts are determined in line with the Value Added Tax Act 89 of 1991. VAT increased from 14% to 15% from 1 April 2018.

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5. Receivables from non-exchange transactions (continued)

Interest or other charges levied/charged

Interest or other charges levied on Property rates balances are in line with the Annual Tariff List of the municipality approved by Council as part of the Budget Process in terms of the Municipal Finance Management Act, 56 of 2003. "Interest" means a charge levied, on all arear accounts calculated at an interest rate which is one percent higher than the prime interest rate.

Basis used to assess and test whether a statutory receivable is impaired

The basis used to assess Property Rates receivables is based on the impairment policy which groups like customers and allocates an appropriate risk status to them. This then used to determine the range (from the age analysis) to be subjected to the impairment percentage according to the impairment policy of the municipality.

No impairment on VAT Receivable, balance expected to be fully recoverable. Discount rate applied to the estimated future cash flows Interest is calculated using the nominal interest rate as stipulated in the municipal by-laws (Prime plus 1%). This rate is also considered an appropriate discount rate.

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5. Receivables from non-exchange transactions (continued)

5.1.2 Impairment reconciliation of receivables from non-exchange transactions

	2022				2021			
	Opening balance	Impairment raised	Closing balance	Opening balance	Impairment raised	Closing balance	Opening balance	Closing balance
Consumer receivables								
Property rates	14 778 066	4 538 198	19 316 264	20 768 283	(5 990 217)	14 778 066		
Other receivables								
R/D cheques	-	-	-	(1 543)	1 543	-		
Total	14 778 066	4 538 198	19 316 264	20 766 740	(5 988 674)	14 778 066		

5.1.3 Ageing of impaired receivables from non-exchange transactions

2022

	Not due				Past due			
	Total	Current	30 days	60 days	90 days	120+ days		
Consumer receivables								
Property rates	19 369 129	94 292	270 904	236 338	222 342	18 545 253		

2021

	Not due				Past due			
	Total	Current	30 days	60 days	90 days	120+ days		
Consumer receivables								
Property rates	14 778 066	75 763	327 977	316 593	461 840	13 595 893		

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6. Other current assets		
Operating lease - straight lining	29 465	29 465
Control, clearing and interface accounts	1 527 045	1 432 296
VAT receivable	58 001	-
Total	1 614 511	1 461 761
7. VAT receivable		
VAT receivable	12 217 874	4 844 483
8. Investment property		
8.1 Reconciliation of carrying value		
Opening carrying value		
Cost	2 404 400	5 785 700
Accumulated depreciation and impairment losses	(37 714)	(73 310)
	2 366 686	5 712 390
Depreciation	30 (18 806)	(18 806)
Carrying value of disposals / transfers		
Cost	(241 000)	(3 381 300)
Accumulated depreciation and impairment losses	-	54 401
	(241 000)	(3 326 899)
Closing carrying value	2 106 880	2 366 685
Cost	2 163 400	2 404 400
Accumulated depreciation and impairment losses	(56 520)	(37 715)
	2 106 880	2 366 685

Criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business is set out in the accounting policy note of investment property.

8.2 Investment property pledged as security

All of the municipality's investment property is held under freehold interests and no investment property had been pledged as security for any liabilities of the municipality.

8.3 The amounts recognised in surplus or deficit for rental revenue from investment property

Leasehold income	760 469	111 304
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A register containing the information required by section 63 of the Municipal Financial Management Act is available for inspection at the registered office of the municipality.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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9. Property, plant and equipment

9.1 Summary

	2022			2021		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Land	31 314 593	-	31 314 593	34 918 366	-	34 918 366
Transport Assets	19 753 617	(12 944 081)	6 809 536	19 288 466	(10 857 807)	8 430 659
Electrical Infrastructure	23 674 837	(12 646 462)	11 028 375	25 404 333	(13 771 859)	11 632 474
Solid Waste Infrastructure	507 625	(69 037)	438 588	507 625	(59 900)	447 725
Machinery and Equipment	2 548 183	(1 531 505)	1 016 678	2 588 406	(1 400 896)	1 187 510
Furniture and Office Equipment	8 234 546	(5 282 092)	2 952 454	8 635 000	(4 936 515)	3 698 485
Computer Equipment	3 920 386	(2 129 197)	1 791 189	4 207 186	(2 234 986)	1 972 200
Roads Infrastructure	435 794 759	(259 298 506)	176 496 253	441 628 894	(247 955 954)	193 672 940
Storm water Infrastructure	12 689 713	(5 123 671)	7 566 042	12 765 722	(4 640 217)	8 125 505
Community Assets	122 497 383	(23 811 550)	98 685 833	121 880 223	(21 324 302)	100 555 921
Other Assets	35 957 331	(7 362 401)	28 594 930	36 169 528	(6 531 306)	29 638 222
Leased Assets	-	-	-	1 205 956	(1 205 956)	-
Construction Work-in-progress	90 894 016	-	90 894 016	62 589 785	(17 614 488)	44 975 297
Total	787 786 989	(330 198 502)	457 588 487	771 789 490	(332 534 186)	439 255 304

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	34 918 366	-	(3 603 773)	-	-	-	31 314 593
Transport Assets	8 430 659	693 133	(143 005)	-	(927 658)	(1 243 593)	6 809 536
Electrical Infrastructure	11 632 474	67 500	(308 165)	-	(340 290)	(23 144)	11 028 375
Solid Waste Infrastructure	447 725	-	-	-	(9 137)	-	438 588
Machinery and Equipment	1 187 510	107 116	(108 884)	-	(167 997)	(1 067)	1 016 678
Furniture and Office Equipment	3 698 485	60 344	(131 288)	-	(675 087)	-	2 952 454
Computer Equipment	1 972 200	126 965	(24 428)	-	(283 548)	-	1 791 189
Roads Infrastructure	193 672 940	-	(2 535 894)	1 561 732	(11 250 144)	(4 952 381)	176 496 253
Storm water Infrastructure	8 125 505	-	(61 832)	-	(158 061)	(339 570)	7 566 042
Community Assets	100 555 921	96 550	(2 154 917)	3 213 923	(3 013 369)	(12 275)	98 685 833
Other Assets	29 638 222	-	(171 001)	-	(701 964)	(170 327)	28 594 930
Construction Work-in-progress	44 975 297	50 694 374	-	(4 775 655)	-	-	90 894 016
	439 255 304	51 845 982	(9 243 187)	-	(17 527 255)	(6 742 357)	457 588 487

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	35 748 866	-	(830 500)	-	-	-	34 918 366
Transport Assets	11 492 100	1 611 284	(221 428)	-	(1 525 076)	(2 926 221)	8 430 659
Electrical Infrastructure	11 971 707	-	-	-	(339 233)	-	11 632 474
Solid Waste Infrastructure	456 862	-	-	-	(9 137)	-	447 725
Machinery and Equipment	1 335 464	117 802	-	-	(224 422)	(41 334)	1 187 510
Furniture and Office Equipment	3 851 306	537 368	-	-	(690 189)	-	3 698 485
Computer Equipment	1 660 654	643 900	(40 524)	-	(291 821)	(9)	1 972 200
Roads Infrastructure	167 843 051	-	(1 613 433)	37 849 476	(9 327 429)	(1 078 725)	193 672 940
Storm water Infrastructure	7 250 242	-	-	1 019 170	(143 907)	-	8 125 505
Community Assets	127 860 113	-	(41 798 839)	17 608 989	(2 650 250)	(464 092)	100 555 921
Other Assets	30 375 430	-	-	-	(702 688)	(34 520)	29 638 222
Leased Assets	334 804	-	-	-	(334 804)	-	-
Construction Work-in-progress	55 100 108	59 180 714	-	(59 448 810)	-	(9 856 715)	44 975 297
	455 280 707	62 091 068	(44 504 724)	(2 971 175)	(16 238 956)	(14 401 616)	439 255 304

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9.2 Property, plant and equipment under construction

Building Infrastructure	-
Community Assets	339 429
Electrical Infrastructure	7 913 678
Roads Infrastructure	19 305 167
Solid Waste Infrastructure	63 136 933
	198 804
	90 894 011
	44 975 296

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9. Property, plant and equipment (continued)

The movements for the year can be reconciled as follows:

Balance at the beginning of the year	44 975 297	55 100 108
Expenditure during the year	50 694 371	59 180 714
Assets unbundled during the year	(4 775 656)	(59 448 810)
Impairment expense for the year	-	(9 856 715)
	90 894 012	44 975 297

9.3 Change in estimate

Useful life of property, plant and equipment

Depreciable assets - During the year, the useful life of property, plant and equipment had been re-estimated at the beginning of the current period to reflect the actual pattern of service potential derived from the assets.

The effect on the current and future periods will be an increase in the depreciation charge of R 3 657 636 in the current period and an equal decrease in the depreciation charge of R 3 657 636 over the remaining period/s.

9.4 Property, plant and equipment contractual commitments

The contractual commitment for the acquisition of property, plant and equipment is as follows:

Infrastructure	29 951 581	37 715 606
Community assets	3 957 809	494 665
	33 909 390	38 210 271

9.5 Property, plant and equipment pledged as security

No assets have been pledged as security.

9.6 Maintenance of property, plant and equipment

9.6.1 Maintenance of property, plant and equipment by nature and type of expenditure

Expenditure incurred to repair and maintain property, plant and equipment included in the Statement of Financial Performance

Contracted services	2 015 770	1 841 053
Inventory consumed	1 484 548	2 689 765
	3 500 318	4 530 818

Verification of assets

During the year, assets with a carrying value of R 2 463 588.55 could not be verified and as a result they have been left in the asset register pending investigation report. The assets were part of the infrastructure and Community assets and movable assets from furniture, computer equipment and machinery. Action shall be taken once the asset management unit receives a full report on the respective components.

Included within the work in progress is the INEP projects with the total project cost of 2021/22: R19 305 167.48 (2020/21: R3 310 563).

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10. Intangible assets		
10.1 Reconciliation of carrying value		
2022		
	Computer software	Total
Opening carrying value as at 01 July 2021		
Cost	551 632	551 632
Accumulated depreciation and impairment	(332 389)	(332 389)
	219 243	219 243
Additions from acquisitions	540 000	540 000
Amortisation	(176 883)	(176 883)
	363 117	363 117
Carrying value of disposals / transfers		
Cost	(182 962)	(182 962)
Accumulated depreciation and impairment	142 195	142 195
	(40 767)	(40 767)
Closing carrying value as at 30 June 2022	541 593	541 593
Cost	908 670	908 670
Accumulated amortisation and impairment	(367 077)	(367 077)
	541 593	541 593
2021		
	Computer software	Total
Opening carrying value as at 01 July 2020		
Cost	551 632	551 632
Accumulated depreciation and impairment	(252 741)	(252 741)
	298 891	298 891
Amortisation	(79 648)	(79 648)
Closing carrying value as at 30 June 2021	219 243	219 243
Cost	551 632	551 632
Accumulated amortisation and impairment	(332 389)	(332 389)
	219 243	219 243

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11. Heritage assets		
11.1 Reconciliation of carrying value		
2022		
	Monuments and parks	Total
Opening carrying value as at 01 July 2021		
Cost	182 536	182 536
Accumulated impairment losses	-	-
	182 536	182 536
Cost	182 536	182 536
Accumulated impairment losses	-	-
	182 536	182 536
2021		
	Monuments and parks	Total
Opening carrying value as at 01 July 2020		
Cost	182 536	182 536
Accumulated impairment losses	-	-
	182 536	182 536
Cost	182 536	182 536
Accumulated impairment losses	-	-
	182 536	182 536
12. Consumer deposits		
Rental properties	90 089	77 192
Deposits are released on termination of the contract or when the contractual services are delivered.		
13. Employee benefits		
Non-current employee benefits		
Post-employment health care benefits	13.1 10 162 000	10 374 000
Long-service awards benefits	13.2 3 350 001	3 184 000
	13 512 001	13 558 000
Current employee benefits		
Post-employment health care benefits	13.1 101 000	95 000
Long-service awards benefits	13.2 299 000	598 000
Bonus	13.3 1 793 058	1 838 071
Staff leave	13.4 8 745 033	7 257 301
	10 938 091	9 788 372
Total employee benefits	24 450 092	23 346 372

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13. Employee benefits (continued)

13.1 Post-employment health care benefits

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at June 30, 2022 by Mr Julian Van Der Spuy of ZAQ of Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Post Employee Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follow:

	Number	Number
In-service members (Employees)	91	100
Continuation members (Retirees)	2	2
Total members	93	102

The liability in respect of past service has been estimated as follow:

In-service members (Employees)	9 452 000	9 667 000
Continuation members (Retirees)	811 000	802 000
Total liability	10 263 000	10 469 000
Non-current	10 162 000	10 374 000
Current	101 000	95 000
Total liability	10 263 000	10 469 000

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Key Health
- LA Health
- Fed Health
- Samwumed

The Future-service Cost for the ensuing year is estimated to be R 785 000 whereas the Interest Cost is estimated to be R 1 254 000.

The principal assumptions used for the purposes of the actuarial valuations were as follow:

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13. Employee benefits (continued)

Rates of interest

Discount rate	Yield curve	Yield curve
Consumer Price Inflation (CPI)	Difference between nominal and yield curve	Difference between nominal and yield curve
Health care cost inflation rate	CPI+1%	CPI+1%
Net effective discount rate	Yield curve based	Yield curve based

GRAP 25 defines the determination of the Discount Rate Assumption to be used as follow:

'The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.'

The Actuaries used the nominal and real zero curves as at 30 June 2022 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Normal retirement age

The average retirement age for all active employees was assumed to be 65 years. This assumption implicitly allows for ill-health and early retirements. The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Amounts recognised in the statement of financial position

The amounts recognised in the statement of financial position is as follows:

Present value of unfunded obligations	10 263 000	10 469 000
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Amounts recognised in the statement of financial performance

The amounts recognised in the statement of financial performance is as follows:

Current service cost	884 000	723 000
Interest cost	1 161 000	808 000
Actuarial loss/ (gain) recognised in the year	(2 189 000)	1 865 000
Total post-retirement benefit included in employee related costs	28 (144 000)	3 396 000

Movements in the present value of the defined benefit obligation

Opening balance	10 469 000	7 132 000
Current service cost	884 000	723 000
Interest cost	1 161 000	808 000
Actual employer benefit payments	(62 000)	(59 000)
Actuarial loss/ (gain) recognised in the year	(2 189 000)	1 865 000
Present value of fund obligation at the end of the year	10 263 000	10 469 000

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13. Employee benefits (continued)

History of experienced adjustments

The effect of a 1% movement in the assumed rate of health care cost inflation is as follow:

	+1% Increase	-1% Decrease
Effect on the defined benefit obligation	12 261 000	8 661 000
Effect on the aggregate of the interest cost	1 501 000	1 056 000
Effect on the aggregate of the current service cost	974 000	638 000

Total accrued liability

The effect of a 20% movement in the assumed mortality rates are as follow on the ensuing years assumptions:

	+20% Mortality rate	-20% Mortality rate
Total accrued liability	9 510 000	11 174 000
Effect on the aggregate of the interest cost	1 161 000	1 366 000
Effect on the aggregate of the current service cost	732 000	861 000

13.2 Long-service awards benefits

Provision for long-service awards	13.2.1	3 649 001	3 782 000
Less: Transfer to current portion		(299 000)	(598 000)
Total non-current benefit		3 350 001	3 184 000
Non-current		3 350 001	3 184 000
Current		299 000	598 000
Total liability		3 649 001	3 782 000

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13. Employee benefits (continued)

Long-service awards

The municipality operates a funded defined benefit plan for all its employees. Under the plan, a Long Service Award is payable after 5 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The principal assumptions used for the purposes of the actuarial valuations were as follow:

Discount rate	Yield curve	7.46%
General Salary inflation		4.03%
Net effective discount rate		3.30%
Normal salary increase rate		3.74%
Net effectived discount rate		3.13%

GRAP 25 defines the determination of the Discount Rate Assumption to be used as follow:

The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

The Actuaries used the nominal and real zero curves as at 30 June 2022 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, they used the prevailing yield at the time of performing their calculations. The methodology was changed from a point estimate to that of a curve in order to present a more accurate depiction of the liability. Previously only one discount rate was used to value all the liabilities. This changed methodology would be seen as a change in estimate basis.

Amounts recognised in the statement of financial position

The amounts recognised in the statement of financial position are as follow:

Present value of unfunded obligations	3 649 001	3 782 000
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Amounts recognised in the statement of financial performance

The amounts recognised in the statement of financial performance are as follow:

Current service cost	571 000	564 000
Interest cost	405 000	218 000
Total expense included in employee related costs	28 976 000	782 000

13.2.1 Provision for long service awards

Movements in the present value of the obligation

Opening Balance	3 782 000	3 413 000
Increases	976 000	918 000
Reversals	(1 109 000)	(549 000)
Closing balance	3 649 000	3 782 000

The effect of a 1% movement in the withdrawal rates are as follow on the ensuing years assumptions:

	1% Decrease	1% Increase
Effect on the total accrued liability	3 461 000	3 853 000
Effect on the aggregate of the current service cost	481 000	542 000
Effect on the aggregate of the interest cost	405 000	455 000

The effect of a 20% movement in the withdrawal rates are as follow on the ensuing years assumptions:

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13. Employee benefits (continued)

	-20% Withdrawal rate	+20% Withdrawal rate
Effect on the total accrued liability	3 841 000	3 984 000
Effect on the aggregate of the current service cost	611 000	611 000
Effect on the aggregate of the interest cost	429 000	429 000

13.3 Bonus

Provision for bonus	13.3.1	1 676 890	1 712 003
Bonus payable		116 168	126 068
Total liability		1 793 058	1 838 071
Less: Transfer to current portion		(1 793 058)	(1 838 071)
Total non-current benefit		-	-
Current		1 793 058	1 838 071

Amounts recognised in the statement of financial position

The amounts recognised in the statement of financial position are as follow:

Present value of unfunded obligations	1 793 058	1 838 071
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Amounts recognised in the statement of financial performance

The amounts recognised in the statement of financial performance are as follow:

13.3.1 Provision for bonus

Movements in the present value of the defined benefit obligation

Opening Balance	1 712 003	1 675 338
Increases	1 676 889	1 712 002
Reversals	(1 712 002)	(1 675 337)
Closing balance	1 676 890	1 712 003

13.4 Staff leave

Leave accrual	13.4.1	8 745 033	7 257 301
Less: Transfer to current portion		(8 745 033)	(7 257 301)
Total non-current benefit		-	-
Current		8 745 033	7 257 301

Amounts recognised in the statement of financial position

The amounts recognised in the statement of financial position are as follow:

Present value of unfunded obligations	8 745 033	7 257 301
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Figures in Rand	2022	2021
13. Employee benefits (continued)		
13.4.1 Leave accrual		
Movements in the present value of the defined benefit assets		
Opening Balance	7 257 301	10 005 224
Deposits	8 745 033	(1 830 039)
Withdrawals	(7 257 301)	(917 884)
Closing balance	8 745 033	7 257 301
14. Trade and other payables from exchange transactions		
Bulk purchases	14.1 964 420	1 369 130
Contractors	14.2 8 288 255	6 454 989
Control and clearing accounts	14.3 348 409	(731 173)
Other payables	14.4 10 172 287	7 348 709
Statutory payables	14.5 810 345	389 403
Total	20 583 716	14 831 058
14.1 Bulk purchases		
Bulk electricity	964 420	1 369 130
14.2 Contractors		
Retentions	8 288 255	6 454 989
14.3 Control and clearing accounts		
Employee deductions FICS	30 018	30 018
Licensing and registration	-	5 273
Medical aid control	22 626	(1)
Salary Control	295 765	(766 463)
Total	348 409	(731 173)
14.4 Other payables		
Agency fees	(77 302)	570 891
Payables and accruals	5 199 718	5 588 054
Unallocated deposits	-	(907)
Advance payments	5 049 871	1 190 671
Total	10 172 287	7 348 709
14.5 Statutory payables		
Compensation commission (COID)	810 345	389 403

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit time frame.

The management of the municipality is of the opinion that the carrying value of creditors approximate their fair values.

The fair value of creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

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15. Trade and other payables from non-exchange transactions – Unspent transfers and subsidies

	2022			2021		
	Opening balance	Funds received	Funds utilised	Closing balance	Funds received	Funds utilised
15.1	8 645 011	52 951 250	(59 992 698)	1 603 563	74 077 342	(65 337 811)
Capital						
Monetary allocations						
Operational						
Monetary allocations	3 000 000	7 816 750	(10 492 449)	324 301	11 597 658	(8 597 658)
Total	11 645 011	60 768 000	(70 485 147)	1 927 864	85 675 000	(73 935 469)
						11 739 531

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15. Trade and other payables from exchange transactions (continued)

15.1 Capital monetary allocations

	2022			2021		
	Opening balance	Funds received	Funds utilised	Closing balance	Funds received	Funds utilised
National government						
Integrated National Electrification Programme Grant	-	19 440 000	(19 439 970)	30	7 224 000	(7 224 000)
	-	33 511 250	(33 511 249)	1	38 853 342	(38 758 822)
Total	-	52 951 250	(52 951 219)	31	46 077 342	(45 982 822)
Provincial government						
Eastern Cape	8 645 011	-	(7 041 479)	1 603 532	28 000 000	(19 354 989)
Provincial government						
Specify (Add grant description)	8 645 011	-	(7 041 479)	1 603 532	28 000 000	(19 354 989)
Total capital monetary allocations	8 645 011	52 951 250	(59 992 698)	1 603 563	74 077 342	(65 337 811)
16. Provisions						
Landfill sites Litigation	16.1	16 179 530	15 409 076			
		1 416 009	-			
Total		17 595 539	15 409 076			
Transferred to current provisions		(17 595 539)	(15 409 076)			
Total non-current provision		-	-			

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16. Provisions (continued)

Current

17 595 539 15 409 076

16.1 Landfill sites

Opening Balance

31 588 606 29 266 192

Reductions (Payments, remeasurement etc.)

(15 409 076) (13 857 116)

Closing balance

16 179 530 15 409 076

Transferred to current provisions

(16 179 530) (15 409 076)

Total non-current provision

- -

Location

Proposed rehabilitation date Post closure monitoring date

Lady Frere landfill site is located approximately 2.0km west off Indwe road R394

4 511 750

Dordrecht landfill site is located off R56 about 900m after the Dordrecht town to Queenstown Route

8 436 634

Indwe landfill site is located east off R56 approximately

3 231 146

260m before the town of Indwe

-

-

-

16 179 530

-

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16. Provisions (continued)

16.2 Unauthorised, irregular, fruitless and wasteful expenditure

17. Property rates

Business and commercial properties	2 183 328	2 155 722
Farm properties	632 561	847 801
Public benefit organisations	-	2 346
Residential properties	1 935 317	2 197 355
State-owned properties	6 226 662	4 689 552
Total	10 977 868	9 892 776

Residential properties

Less: Income forgone	1 935 317	2 197 355
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Valuation as at 30 June 2022

Agricultural property	691 394 004	685 774 004
Business and commercial properties	189 305 503	190 807 503
Churches	25 872 701	25 791 701
Municipal properties	28 209 300	28 209 300
Other categories	7 837 138	8 086 137
Residential properties	342 776 500	342 781 900
State-owned properties	192 182 000	192 182 000
Vacant land	28 214 800	28 274 800
Total property valuations	1 505 791 946	1 501 907 345

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. During the current year under review the municipality compiled the supplementary valuation roll which was completed in July 2021 for implementation in 2021/2022 financial year

18. Transfers and subsidies - Revenue

Operational

Monetary allocations	18.1	143 514 734	165 249 051
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Capital

Monetary allocations	18.2	59 247 219	62 871 788
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Total		202 761 953	228 120 839
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18.1 Monetary allocations: Operational

Departmental agencies and accounts	109 285	116 288
District municipalities	-	1 363 915
National governments	6 866 750	7 647 658
National revenue fund	132 913 000	153 799 000
Provincial government	3 625 699	2 322 190
Total	143 514 734	165 249 051

National Government

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Figures in Rand	2022	2021
18. Transfers and subsidies - Revenue (continued)		
Expanded Public Works Programme Integrated Grant	2 003 000	2 091 000
Local Government Financial Management Grant	3 100 000	3 000 000
Municipal Infrastructure Grant	1 763 750	2 556 658
	6 866 750	7 647 658
18.2 Monetary allocations: Capital		
District municipalities	-	181 980
National government	53 045 740	44 610 632
Provincial governments	6 201 479	18 079 176
Total	59 247 219	62 871 788
National Government		
Integrated National Electrification Programme Grant	19 439 970	5 851 810
Municipal Infrastructure Grant	33 605 770	38 758 822
	53 045 740	44 610 632
19. Fines, penalties and forfeits		
Fines	19.1 137 567	203 811
Forfeits	19.2 -	949 051
Total	137 567	1 152 862
19.1 Fines		
Traffic fines		
Municipal fines	36 200	25 350
Other fines		
Illegal connections	-	120 750
Pound fees	101 367	57 711
	101 367	178 461
Total	137 567	203 811
19.2 Forfeits		
Retentions	-	949 051
20. Interest earned from receivables		
Exchange receivables	20.1 2 878 312	2 663 422
Non-exchange receivables	20.2 1 960 466	1 608 405
Total	4 838 778	4 271 827
20.1 Interest earned from exchange receivables		
Consumer receivables		
Electricity	571 541	291 407
Waste management	2 251 502	2 203 797
	2 823 043	2 495 204

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20. Interest earned from receivables (continued)		
Other receivables		
Property rental debtors	55 269	168 218
Total	2 878 312	2 663 422
20.2 Interest earned from non-exchange receivables		
Consumer receivables		
Property rates	1 960 466	1 608 405
21. Service charges		
Electricity		
Other - Electricity	14 661 872	13 935 644
Waste management		
Other - Waste management	9 404 954	7 653 906
Total service charges	24 066 826	21 589 550
22. Rental		
Market related	808 275	175 992
Non-market related	65 807	32 283
Rent on land	6 453	-
Total	880 535	208 275
22.1 Rental by asset class		
Market related		
Property, plant and equipment		
• Community assets	47 806	64 688
Investment property	760 469	111 304
Total	808 275	175 992
Non-market related		
Property, plant and equipment		
• Community assets	65 807	32 283
	65 807	32 283
Rent on land		
Land	6 453	-
Total rentals	880 535	208 275
22.2 Rental by type		
Market related		
Property, plant and equipment		
Community assets		
• Straight-lined operating	47 806	64 688
Investment property		
Straight-lined operating	760 469	111 304
Total	808 275	175 992

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Figures in Rand	2022	2021
22. Rental (continued)		
Non-market related		
Property, plant and equipment		
Community assets		
• Ad-hoc rentals	65 807	32 283
Total	65 807	32 283
Rent on land		
Land		
Grazing Fees	6 453	-
Total	6 453	-
23. Interests on investments		
Bank accounts	7 546	6 712
Short-term investments and call accounts	3 974 443	2 267 201
Total	3 981 989	2 273 913
24. Licenses or permits		
Exchange revenue	24.1 1 144 055	1 436 210
24.1 Licenses and permits - Exchange revenue		
Road and transport	958 178	1 412 526
Trading	185 877	23 684
Total	1 144 055	1 436 210
25. Agency services		
Provincial	2 820 432	2 929 178
26. Operational revenue		
Administrative Handling Fees	100	-
Commission	89 768	108 900
Inspection fees	14 847	11 183
Insurance Refund	167 208	437 032
Total	271 923	557 115
27. Sales of goods and rendering of services		
Building Plan Approval	25 647	38 706
Camping Fees	164	-
Cemetery and Burial	45 548	42 771
Clearance Certificates	6 704	9 237
Total	78 063	90 714

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28. Employee related cost

Senior management
Municipal staff

28.1	8 707 985	9 420 673
28.2	81 062 154	76 100 227
Total	89 770 139	85 520 900

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28. Employee related cost (continued)

28.1 Senior management costs

2022

	Municipal manager - V Makedama	Chief financial officer - X Sikobi	Director Planning Economic Development, T ourism and Agriculture - N Mntuyedwa	Director Infrastructure Development and Human Settlements - D Njilo	Director Corporate Services - T Javu	Director Community Services - Vacant	Total
Basic salary	960 635	969 329	1 039 355	801 409	891 603	-	4 662 331
Bonuses	-	-	-	-	-	46 718	46 718
Service-related benefits	-	-	29 797	108 867	-	227 611	366 275
Allowances	572 907	453 172	404 794	302 762	567 764	-	2 301 399
Medical	80 222	86 907	34 208	-	-	-	201 337
Pension	300 294	184 725	272 768	226 566	135 465	-	1 119 818
Unemployment insurance	2 138	2 125	2 125	1 417	2 125	177	10 107
	1 916 196	1 696 258	1 783 047	1 441 021	1 596 957	274 506	8 707 985

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28. Employee related cost (continued)

2021

	Municipal manager - V Makedama	Chief financial officer - X Sikobi	Director planning Economic Development, Tourism and Agriculture - N Mntuyedwa	Director Infrastructure Development and Human Settlements - D Njilo	Director Corporate Services - T Javu	Director Community Services - N Nyezi	Total
Basic salary	1 083 750	1 098 659	998 345	1 067 548	458 421	831 954	5 538 677
Bonuses	-	-	-	-	-	46 719	46 719
Service-related benefits	-	-	4 356	-	24 959	95 841	125 156
Allowances	417 741	437 235	401 101	429 812	228 486	281 793	2 196 168
Medical	78 170	81 654	33 333	-	48 744	77 184	319 085
Pension	292 613	30 000	265 791	319 858	55 000	221 492	1 184 754
Unemployment insurance	1 898	1 898	1 898	1 898	1 006	1 516	10 114
	1 874 172	1 649 446	1 704 824	1 819 116	816 616	1 556 499	9 420 673

The Remuneration of Executives as disclosed above refer to the actual amounts paid to them during the 2022 and 2021 years respectively.

Where other officials acted in the Executive Director positions and was remunerated accordingly, only the additional remuneration for acting in that position is disclosed.

During the year, the post of Director Community services was vacant and Mr O Ndyumbu and Mr M Nziweni were appointed by the council as acting directors.

During the year, Mr D Njilo, the Director Infrastructure Development and Human Settlements resigned and was released from his duties.

During the year, Mr T Javu was appointed by the council as acting director Infrastructure Development and Human Settlements.

During the year, Mr M Tikana acted as a director Planning Economic Development, Tourism and Agriculture during the absence of the director.

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28. Employee related cost (continued)		
28.2 Municipal staff costs		
Basic salary	51 800 382	50 089 979
Bonuses	3 853 004	3 701 449
Service-related benefits	6 523 447	2 488 350
Allowances	5 258 450	6 108 455
Bargaining council	24 246	25 408
Medical	3 059 223	3 146 611
Pension	8 049 530	8 532 466
Post-retirement benefit: Medical	2 045 065	1 596 186
Unemployment insurance	448 807	411 323
Total	81 062 154	76 100 227
29. Remuneration of councillors		
Mayor	29.1 888 567	906 159
Speaker	29.2 704 269	729 888
Executive committee	29.3 3 224 910	4 574 300
Section 79 committee chairperson	29.4 774 820	783 532
All other councillors	29.5 7 796 743	6 448 427
Total	13 389 309	13 442 306
29.1 Mayor		
Allowances and service related benefits		
Basic salary	801 409	731 730
Cell phone allowance	44 115	44 400
Out of pocket expenses	-	900
	845 524	777 030
Social contributions		
Pension fund contributions	43 043	129 129
Total	888 567	906 159
29.2 Speaker		
Allowances and service related benefits		
Basic salary	626 920	585 385
Cell phone allowance	42 915	40 800
Out of pocket expenses	-	400
	669 835	626 585
Social contributions		
Pension fund contributions	34 434	103 303
Total	704 269	729 888
29.3 Executive committee		
Allowances and service related benefits		
Basic salary	2 537 107	3 692 525
Cell phone allowance	232 157	244 800
Out of pocket expenses	-	3 529
Travelling allowance	244 000	138 000
	3 013 264	4 078 854

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29. Remuneration of councillors (continued)			
Social contributions			
Medial aid benefits	9 381	-	
Pension fund contributions	202 265	495 446	
	211 646	495 446	
Total	3 224 910	4 574 300	
29.4 Section 79 committee chairperson			
Allowances and service related benefits			
Basic salary	637 928	552 351	
Cell phone allowance	87 930	81 600	
Out of pocket expenses	-	2 695	
Travelling allowance	14 000	42 000	
	739 858	678 646	
Social contributions			
Pension fund contributions	34 962	104 886	
Total	774 820	783 532	
29.5 All other councillors			
Allowances and service related benefits			
Basic salary	6 217 073	4 034 268	
Cell phone allowance	1 150 186	1 056 122	
Out of pocket expenses	-	8 630	
Travelling allowance	123 000	416 796	
	7 490 259	5 515 816	
Social contributions			
Pension fund contributions	306 484	932 611	
Total	7 796 743	6 448 427	
	Amount outstanding for more than 90 days		
List the name of the councillor which at any time during the relevant financial year was in arears for more than 90 days			
THANDEKA GLORIA/THEMBINKOSI GABRIEL KULASHE	26 455	23 500	
30. Depreciation, amortisation and impairment			
Amortisation			
Intangible assets	10.1	176 883	79 648
Depreciation			
Investment property	8.1	18 806	18 806
Property, plant and equipment	9	17 527 255	16 238 956
		17 546 061	16 257 762
Impairment loss / reversal of impairment			
Property, plant and equipment	9	6 742 359	4 544 900
Construction Work-in-progress		-	9 856 715
		6 742 359	14 401 615
Total		24 465 303	30 739 025

EMALAHLENI MUNICIPALITY

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Figures in Rand		2022	2021		
31. Interest, dividends and rent on land					
Interest	31.1	13 810	1 366 301		
31.1 Interest cost					
Finance leases		2 696	17 256		
Long service awards		-	436 000		
Overdue accounts	14.4	11 114	913 045		
Total		13 810	1 366 301		
32. Bulk Purchases					
Electricity: Eskom		15 030 431	13 184 856		
32.1 Electricity losses					
		2022	2021		
		KHW	Amount	KHW	Amount
Units purchased		10 691 090	11 819 115	10 748 270	11 377 211
Units sold		(8 029 864)	(16 867 665)	(8 620 644)	(15 568 192)
Total loss		2 661 226	(5 048 550)	2 127 626	(4 190 981)
Reasons for the losses					
Losses occurred because of the following reasons:					
<ul style="list-style-type: none">• The reason for the increase is due to electricity theft• Normal losses• Electricity losses					
33. Inventory consumed					
Consumables		104 394	1 020 288		
Materials and supplies		2 129 564	2 689 765		
Total		2 233 958	3 710 053		
34. Contracted services					
Consultants and professional services	34.1	5 002 560	3 161 576		
Contractors	34.2	2 634 686	2 375 903		
Outsourced services	34.3	11 167 790	10 984 353		
Total		18 805 036	16 521 832		
34.1 Consultants and professional services					
Business advisory services					
Accounting and auditing		897 845	602 760		
Audit committee		249 188	179 451		
Business and financial management		467 373	838 779		
Forensic investigators		417 436	-		
Human resources		-	1 185		
Quality control		414 973	-		
Research and advisory		-	110 000		
Valuer and assessors		91 711	-		
Total business advisory services		2 538 526	1 732 175		

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
34. Contracted services (continued)		
Legal services		
Legal advice and litigation	2 464 034	1 429 401
Total consultants and professional services	5 002 560	3 161 576
34.2 Contractors		
General services		
Fire services	43 225	-
Gardening services	-	16 600
Interior decorator	29 295	-
Plants, flowers and other decorations	-	48 400
Removal of hazardous waste	134 520	-
Stage and sound crew	26 664	30 720
Traffic and street lights	78 718	29 950
Total general services	312 422	125 670
Maintenance services		
Maintenance of buildings and facilities	44 000	567 031
Maintenance of equipment	1 503	427 201
Maintenance of unspecified assets	1 991 383	973 305
Total maintenance service	2 036 886	1 967 537
Trading services		
Prepaid electricity vendors	285 378	282 696
Total contractor	2 634 686	2 375 903
34.3 Outsourced services		
Business and advisory services		
Accounting and Auditing	162 146	1 360 239
Business and Financial Management	3 700 397	2 696 175
Human Resources	-	135 000
Occupational Health and Safety	-	336 449
Valuer	-	85 240
Total business and advisory services	3 862 543	4 613 103
General services		
Burial Services	4 000	-
Catering Services	976 576	570 334
Clearing and Grass Cutting Services	50 421	-
Drivers License Cards	117 157	144 570
Medical Services [Medical Health Services & Support]	135 240	30 000
Personnel and Labour	-	161 355
Printing Services	20 333	-
Transport Services	638 129	147 807
Total general services	1 941 856	1 054 066
Trading services		
Electrical	-	87 721
Security Services	5 363 391	5 229 463
Total trading services	5 363 391	5 317 184
Total outsourced services	11 167 790	10 984 353
35. Transfers and subsidies - Expenditure		
Operational		
Allocations in-kind	35.1 541 237	294 320

EMALAHLENI MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
35. Transfers and subsidies - Expenditure (continued)		
Capital		
Allocations in-kind	35.2 183 769	2 971 176
Total	725 006	3 265 496
35.1 Allocations in-kind: Operational		
Households	530 773	294 320
Private Enterprises	10 464	-
Total	541 237	294 320
35.2 Allocations in-kind: Capital		
Households	183 769	-
Provincial Government	-	2 971 176
Total	183 769	2 971 176
36. Operational Cost		
Advertising, Publicity and Marketing	576 621	735 621
Bank Charges, Facility and Card Fees	615 710	309 025
Bursaries (Employees)	324 243	192 884
Communication	777 331	1 491 028
Contribution to Provisions	2 186 463	1 551 960
Deeds	19 147	54 894
Entertainment	-	462
External Audit Fees	4 622 408	2 432 983
External Computer Service	2 655 761	944 255
Hire Charges	513 480	184 144
Indigent Relief	175 565	2 119 849
Insurance Underwriting	1 314 585	781 047
Learnerships and Internships	590 661	556 962
Licenses	470 336	232 507
Municipal Services	1 702 914	2 542 952
Printing, Publications and Books	277 914	345 490
Professional Bodies, Membership and Subscription	1 145 882	1 201 001
Registration Fees	419 922	42 023
Remuneration to Ward Committees	3 025 305	3 303 031
Road Worthy Test	2 750	-
Seating Allowance for Traditional Leaders	94 907	194 880
Skills Development Fund Levy	628 688	667 628
Storage of Assets and Goods	-	87 120
System Access and Information Fees	1 032 210	137 361
Travel and Subsistence	3 351 181	1 434 843
Uniform and Protective Clothing	463 535	335 707
Wet Fuel	1 517 549	1 593 970
Workmen's Compensation Fund	420 942	(61 716)
Total	28 926 010	23 411 911
37. Operating leases		
Furniture and Office Equipment	466 898	438 792

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
38. Gain/(Loss) on disposal of fixed and intangible assets		
Gains/(losses) on disposals	38.1 9 524 983	47 829 479
38.1 Gains/(losses) on disposals		
Investment property	241 000	3 326 899
Property, plant and equipment	9 243 216	44 502 580
Intangible Assets	40 767	-
Total	9 524 983	47 829 479
39. Actuarial Gains and Losses		
Actuarial (Gain) / Loss	(2 746 000)	2 137 000
40. Net cash from/(used) operating activities		
Surplus after capital transfers and contributions	46 874 005	39 567 548
Adjustments for:		
Depreciation and amortisation	17 722 944	16 337 410
Bad debts written off	-	8 324 004
(Gains) / Losses on disposal of assets	9 524 983	47 829 479
Fair value adjustment	(2 746 000)	(2 137 000)
Increase / (Decrease) in provisions	(5 711 091)	(6 328 791)
Impairment loss	11 223 460	(2 534 629)
Movement in working capital		
(Increase) / Decrease in receivables from exchange transactions	(5 162 378)	12 074 221
(Increase) / Decrease in other current assets	(152 750)	(15 614)
(Increase) / Decrease in other current assets 3	-	2 732 058
Increase / (Decrease) in trade and other payables	-	4 754 014
Increase / (Decrease) in unspent conditional grants and receipts trade and other payable non-exchange transactions	(9 811 667)	10 251 427
Increase / (Decrease) in other current liabilities	2 256 280	(7 326 567)
Net cash flows from operating activities	64 017 786	123 527 560
41. Contingent liabilities		
Case 1: Vatala vs Emalahleni Local Municipality		
Vatala vs Emalahleni Local Municipality: The Municipal Manager and Director: Corporate services took the Municipality to court after council terminated their appointment. Matter is still in court. The reason for the significant increase, according to the attorneys, is because the plaintiff amended his pleadings during arbitration.	-	3 000 000
Case 2: Njuze vs Emalahleni Local Municipality		
Njuze vs Emalahleni Local Municipality. Labour court claim for compensation for work allegedly done while acting in another post.	1 300 000	2 000 000
Case 3: Mlungwana vs Emalahleni Local Municipality		
Mlungwana vs Emalahleni Local Municipality. Spoliation order application on electricity supply disconnection.	250 000	250 000
Rehabilitation of landfill site		
Contingent liability for the rehabilitation of landfill sites in INDWE, CACADU and DORTRECHT. The municipality is disclosing a contingent liability as the municipality is still using the landfill site beyond the licensed period and this could attract fines penalties from DEDEAT. The amount cannot be determined due to uncertainty in the amounts which be imposed by DEDEAT for the non-compliance. It impracticable to determine the amount the municipality could be liable for.	-	-
	1 550 000	5 250 000

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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42. Related party disclosures

42.1 Nature of related party relationships

Related party	Nature of relationship
Section 57 managers	Refer to senior manager's note 28.1
Mayor	Refer to note 29.1
Speaker	Refer to note 29.2
Executive council members	Refer to note 29.3
Ordinary council members	Refer to note 29

42.2 Related party transactions

Revenue

Consumer services rendered to Councillors	Rates	25 487	24 165
Consumer services rendered to Councillors	Service charges	5 121	4 775
		30 608	28 940

42.3 Related party balances

Management

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

Receivables

Councillors	26 455	25 431
Key management personnel	-	-
	26 455	25 431

The consumer services are in accordance with approved tariffs that was advertised to the public. No bad debt expenses had been recognised in respect of amounts owed by related parties.

43. Contributions to organised local government

Amount paid to organised local government	1 232 730	1 085 730
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EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
44. Unauthorised, irregular, fruitless and wasteful expenditure		
44.1 Unauthorised expenditure		
Opening balance as previously reported	10 373 137	41 745 268
Add: Unauthorised expenditure – current	38 245 428	9 701 505
Add: Unauthorised expenditure – prior period	-	671 632
Less: Amounts written-off – prior period	-	(41 745 268)
Closing balance	48 618 565	10 373 137

Application of Sec (b) of the definition of Unauthorised expenditure in terms of the MFMA - Total Operating Budget

2022

	Budget	Actual expenditure	Unauthorised expenditure
Unauthorised expenditure per Vote (Department)			
Budget and Treasury Office	26 524 356	53 696 010	27 171 654
Community and Social Services	35 745 145	41 639 373	5 894 228
Corporate Services	34 702 149	22 579 443	-
Executive and Council	29 928 537	32 786 366	2 857 829
Infrastructure Development and Human Settlements	49 879 132	52 200 849	2 321 717
Planning, Economic Development, Tourism and Agriculture	13 992 055	5 120 692	-
	190 771 374	208 022 733	38 245 428

2021

	Budget	Actual expenditure	Unauthorised expenditure
Unauthorised expenditure per Vote (Department)			
Budget and Treasury Office	31 431 000	39 531 057	8 100 057
Community and Social Services	35 644 000	36 717 178	1 073 178
Corporate Services	28 606 000	23 543 216	-
Executive and Council	32 842 000	31 451 447	-
Infrastructure Development and Human Settlements	58 012 000	55 592 016	-
Planning, Economic Development, Tourism and Agriculture	8 268 000	8 796 270	528 270
	194 803 000	195 631 184	9 701 505

Application of Sec (b) of the definition of Unauthorised expenditure in terms of the MFMA - Capital Budget

2022

	Budget	Actual expenditure	Unauthorised expenditure
Unauthorised expenditure per Vote (Department)			
Budget and Treasury Office	1 080 001	120 000	-
Community and Social Services	11 822 740	325 000	-
Corporate Services	300 000	104 280	-
Infrastructure Development and Human Settlements	51 078 514	45 512 601	-
	64 281 255	46 061 881	-

2021

	Budget	Actual expenditure	Unauthorised expenditure
Unauthorised expenditure per Vote (Department)			
Budget and Treasury Office	1 400 000	1 544 119	144 119

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
44. Unauthorised, irregular, fruitless and wasteful expenditure (continued)		
Community and Social Services	3 764 000	1 777 958
Corporate Services	200 000	727 513
Infrastructure Development and Human Settlements	37 374 000	25 596 718
	42 738 000	29 646 308
		671 632

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
44. Unauthorised, irregular, fruitless and wasteful expenditure (continued)		
44.2 Irregular expenditure		
Opening balance as previously reported	17 546 183	7 520 870
Add: Irregular expenditure - current	10 436 310	22 747 358
Less: Amounts written-off – current	-	(5 202 175)
Less: Amounts written-off – prior period	-	(7 519 870)
Closing balance	27 982 493	17 546 183

Cases under investigation

Incident	Disciplinary steps/criminal proceedings		
Medical aid paid to employees exceeding the bargaining council agreement.	Referred to DC Board	14 225	44 052
SCM Process was not followed when acquiring the services	Referred to DC Board	-	5 248 635
Supplier was flagged by CAATs performed by AG in 2019/20 yet they were not removed in the municipal supplier database resulting in an order being issued them in the 2020/21 financial year.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	-	4 200
Supplier was flagged by CAATs performed by AG in 2019/20 yet they were not removed in the municipal supplier database resulting in an order being issued them in the 2020/21 financial year.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	-	9 000
Poor record keeping resulted in the RFQ document being misplaced.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	-	173 995
Overpayment on VAT on disbursements. There was no financial loss as the amount was reclaimed from SARS.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	-	1 725
Incorrect application of SCM regulations by the bid committees.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	-	224 217
Incorrect application of SCM regulations by the bid committees.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	2 010	329 817
Incorrect application of SCM regulations by the bid committees.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	167 940	143 360
Incorrect application of SCM regulations by the bid committees.	Refer the expenditure to MPAC for investigation and DC for financial misconduct.	4 601 285	61 500

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
44. Unauthorised, irregular, fruitless and wasteful expenditure (continued)		
Incorrect application of SCM regulations by the bid committees. Refer the expenditure to MPAC for investigation and DC for financial misconduct.	-	11 230 197
Incorrect application of SCM regulations by the bid committees. Refer the expenditure to MPAC for investigation and DC for financial misconduct.	5 581 331	5 277 260
Incorrect application of SCM regulations. Refer to Expenditure to MPAC for Investigation & also to DC Board for Financial Misconduct investigation.	69 520	-
Total	10 436 311	22 747 958

Recoverability of all irregular expenditure will be evaluated by Council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

44.3 Fruitless and wasteful expenditure

Opening balance as previously reported	106 000	24 629 437
Add: Fruitless and wasteful expenditure – current	1 061 035	6 190 852
Less: Amount recoverable – prior period	-	(27)
Less: Amounts written-off – current	-	(6 084 825)
Less: Amounts written-off – prior period	-	(24 629 437)
Closing balance	1 167 035	106 000

Cases under investigation

Incident	Disciplinary steps/criminal proceedings		
Eskom - Interest on overdue account	Under investigation	13 547	16 964
Magwayi Court Settlement - Note 18	Under investigation	-	6 062 178
Eskom prepayment	Under investigation	1 046 503	-
Vox Telecommunications - Interest on overdue account	Under investigation	-	2 101
Interest on overdue Telkom account	Under investigation	984	1 717
Interest on overdue Department of Transport account (drivers license)	Under investigation	1	889
Cancellation fees charged by Travel Agent (Tunimart)	Under investigation	-	977
Department of labour - Interest incurred in the municipal account for workman's compensation	Under investigation	106 000	106 000
Total		1 167 035	6 190 826

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45. Deviations from SCM regulations - SCM Regulation 36

In terms of section 36 of the municipality SCM regulations, any deviations from SCM policy needs to be approved by the municipal manager and noted by Council. The awards listed below have been approved by the municipal manager and noted by Council.

Single supplier	341 780	1 872 288
Impractical to follow SCM processes	376 086	-
Emergencies	550 276	70 803
Total amount approved by the municipal manager and noted by council	1 268 142	1 943 091

All deviations considered by the municipal manager are processed in terms of the SCM regulations and the municipality's SCM policy. This process entails being assessed by the SCM Bid Adjudication Committee in terms of the stipulated criteria for emergency procurements and circumstances where it is impractical or not possible to follow the official procedure.

46. Awards to close family members - SCM Regulation 45

Awards to close family members of persons in the service of other state departments and entities (not listed above)

Supplier name	Employee name	Relationship	Department
Molicar Investments	C Mbande	Director	Coega Development Corporation

47. Other compulsory disclosures

	SALGA contributions	Audit fees	PAYE and UIF	VAT	Pension and Medical Aid
As at 30 June 2022					
Subscription/fees	1 243 920	4 622 408	15 450 743	756 256	17 854 847
Amount paid – current year	(1 243 920)	(4 622 408)	(15 450 743)	(756 256)	(17 854 847)
Total amount approved by the municipal manager and noted by council	-	-	-	-	-

	SALGA contributions	Audit fees	PAYE and UIF	VAT	Pension and Medical Aid
As at 30 June 2021					
Opening balance	-	-	-	(765 256)	-
Subscription/fees	1 085 730	2 072 656	13 364 780	-	16 960 326
Amount paid – current year	(1 085 730)	(2 072 656)	(13 364 780)	-	(16 960 326)
Subscription/fees	-	-	-	-	2 482 964
Subscription/fees	-	-	-	-	7 393 646
Subscription/fees	-	-	-	-	(8 158 902)
Total amount approved by the municipal manager and noted by council	-	-	-	(765 256)	1 717 708

48. Capital commitments

Commitments in respect of capital expenditure:

Approved and contracted for:

Infrastructure	29 951 581	37 715 606
Community	3 957 809	494 665
	33 909 390	38 210 271

EMALAHLENI MUNICIPALITY

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Figures in Rand	2022	2021
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49. Financial instruments

49.1 Fair value of financial instruments

In accordance with GRAP104.45 the financial liabilities and assets of the municipality are classified as follows:

		2022		2021	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Amortised cost					
Receivables from non-exchange transactions	4	-	10 758 620	-	7 193 022
Trade and other receivables from exchange transactions	4	25 286 575	25 286 575	714 250	714 250
Other current assets		1 614 511	1 614 511	1 461 761	1 461 761
Cash and cash equivalents	3	76 073 396	76 073 396	63 850 996	63 850 996
		102 974 482	113 733 102	66 027 007	73 220 029
Financial liabilities					
Amortised cost					
Trade and other payables:					
Consumer deposits	12	90 089	90 089	77 192	77 192
Trade and other payables from exchange transactions	14	20 583 716	20 583 716	14 832 702	14 832 702
		20 673 805	20 673 805	14 909 894	14 909 894
Total financial instruments		82 300 677	93 059 297	51 117 113	51 117 113

49.2 Capital risk management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance.

49.3 Financial risk management objectives

Due to largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IFRS mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Municipality monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit and risk management, responsible for monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

49.4 Significant accounting policies

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the annual financial statements.

49.5 Market risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 49.6 below). No formal policy exists to hedge volatilities in the interest rate market.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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49. Financial instruments (continued)

49.6 Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk on financial assets consist mainly of fixed deposit investments and bank and cash balances.

The municipality's maximum exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

49.7 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

30 June 2022

	Within 1 year
Maturity analysis	
Trade and Other Payables from exchange transactions	24 262 924
Payables from Non-exchange transactions	1 917 624
	26 180 548

30 June 2021

	Within 1 year
Maturity analysis	
Trade and Other Payables from exchange transactions	14 909 892
Payables from Non-exchange transactions	11 740 258
	26 650 150

The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain its current debt to equity ratio. This will be achieved through the annual increase in tariffs to maintain the accumulated surplus, as well as the increased use of unsecured bank loan facilities.

49.8 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Potential concentrations of credit risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

EMALAHLENI MUNICIPALITY

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49. Financial instruments (continued)

The municipality manages credit risk in its borrowing and investing activities by only dealing with well established financial institutions of high credit standing, and by spreading its exposure over a range of such institutions in accordance with its approved investment policies. Credit risk relating to consumer debtors is managed in accordance with the municipality's credit control and debt collection policy. The municipality's credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts. Additional information relating to the analysis of consumer debtors is given in the accounting policies and Note 5 to the annual financial statements.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follow:

Other current asset		1 614 511	1 461 761
Trade and other receivables from exchange transactions	4	25 286 575	6 278 689
Bank and cash balances	3	76 073 396	63 850 996
Maximum credit and interest risk exposure		102 974 482	71 591 446

49.9 Other price risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

50. Principal-agent arrangements

50.1 Municipality acting as the principal

Ontec	260 524	265 350
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Emalahleni municipality acts as the Principal in the following non-material Principal-Agent Arrangements:

Prepaid Electricity Vendors	285 378	282 696
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Emalahleni municipality paid 3.99% commission to Utilities World for acting as an agent for the sale of prepared electricity on its behalf during the financial year:

Emalahleni municipality paid commission from 0.20% - 2.75% to Ontec for acting as an agent for the sale of prepaid electricity on its behalf during the financial year

Pre-paid electricity sales	10 487 117	9 480 229
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Resources under custodianship of agent at year-end

There are no resources under the custodianship of the agents, nor have they been recognised as such.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
50. Principal-agent arrangements (continued)		
50.2 Municipality acting as the agent		
Revenue recognised as compensation for the transactions carried out on behalf of the principal	2 047 713	1 711 787
Revenue received or to be received on behalf of the principal	8 394 416	6 689 362
Vehicle Registration revenue	2 089 997	1 711 787

Emalahleni Municipality is the Agent in the Principal-Agent arrangement with the Department of Transport Eastern Cape. The municipality acts as an agent by collecting the monies for motor vehicles licenses from the community and remitting them to Department of Transport. In exchange for this services, commission is received on the monies collected.

Emalahleni Local Municipality was paid 19% commission by Department of Transport for acting as an agent on its behalf during the financial year.

	Total agency funds	Amount remitted to the principal	Variance	Explanation of variance
2022	8 394 416	(8 383 010)	11 406	Trivial amount to be paid in July
2021	6 689 363	(6 189 514)	499 849	Paid in July 2021.DOT changes banking details and delayed updating their CSD
	15 083 779	(14 572 524)	511 255	

During the year, the municipality entered into a principal-agent agreement with Department of Transport where the municipality is to act as an implementing agent for the construction and upgrading of various provincial roads in the Emalahleni demarcation. During the year, the municipality received an amount of R28 million from the Department of Transport for upgrade of DR08563 from gravel to a surface road between Indwe and Machubeni and Cadadu to Machubeni. The parties in the agreement agreed that a handling fee of 8% will be paid to the implementing agent in respect of the implementation of the project.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
51. Contingent assets		
N Ngqola vs Emalahleni Local Municipality		
N Ngqola vs Emalahleni Local Municipality. The municipality is trying to reclaim vehicles that were attached and taken by the sherrif after losing a case with N Ngqola on electricity supply disconnection due to alleged tempering.	250 000	250 000
Unauthorised debit orders		
Unauthorised debit orders have been deducted from the municipality's bank account. The amounts have been derecognised in the accounting records of the municipality. A contingent asset is disclosed in this regard as a case has been opened at the local police station in order to recover the monies.	700 000	700 000
Insurance claim - Vehicle HPJ274EC		
Insurance claim - Vehicle HPJ274EC was involved in a car accident on 12 April 2021. The vehicle was declared a write-off. Insurance claim was filed with the municipal insurer and was still being assessed by the insurance assessor at reporting date. The claim is expected to be successful.	-	163 350
Insurance claim - Computer		
Insurance claim - A former employee of the municipality was involved in a fatal accident wherein a municipal laptop allocated to the employee was stolen. The laptop was insured and a claim was processed after it became known to the municipality that the laptop was lost. The municipality expects the claim to be successful after year end.	-	12 595
Emalahleni Local Municipality vs Dr Vatala and Mr De Jager		
During the year, Emalahleni Local Municipality registered a claim against Dr Vatala and Mr De Jager for the recovery of fruitless and wasteful expenditure incurred by the municipality during the time when they were the municipal manager and chief financial officer respectively.	7 947 503	-
Emalahleni Local Municipality vs Umanda Njuze		
Emalahleni Local Municipality vs Umanda Njuze. Review application lodged by the municipality against the arbitration award in favour of Umanda Njuze.	-	300 000
Emalahleni Local Municipality vs Sibongile Maliwa		
Emalahleni Local Municipality vs Sibongile Maliwa. Interdict against respondents who unlawfully demarcated and erected structures in its land.	-	100 000
Withholding of equitable share		
During the submission of the 2020/21 financial statements, grant recognition journals were erroneously reversed which led to unspent conditional grants being disclosed in the financial statements submitted on 31 August. An amount was then withheld from the municipality's second trench of Equitable share in December. The municipality received a communication from national treasury which the municipality wrote back and explained how the errors occurred and that the matter was later rectified. The relevant evidence was also attached however the municipality has not yet received a reply from the National Treasury. Furthermore, the municipality has taken steps to get the matter attended to through the assistance of Provincial Treasury.	2 122 000	-
Additional text		
	11 019 503	1 525 945
52. Councillor's municipal accounts in arrears		
		Amount outstanding for more than 90 days
List the name of the councillor which at any time during the relevant financial year was in arears for more than 90 days		
THANDEKA GLORIA/THEMBINKOSI GABRIEL KULASHE	26 455	23 500
53. Going concern		

We draw attention to the fact that at 30 June 2022 the municipality had an accumulated surplus of R 587,314,708 and that the municipality's total assets exceed its liabilities by R 587,314,708

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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53. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipal manager continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

The municipality successfully maintained a cost-coverage ratio above 2 for the duration of the 2021/22 financial year.

The municipality maintained a healthy current ratio showing adequate liquidity for day-to-day transactions throughout the year including being able to pay all suppliers within 30 days of invoicing.

The municipal budget for the 2022/23 financial was assessed by Eastern Cape provincial treasury and found to be funded which reinforces that that the municipality is a going concern for at least 12 months after year end.

54. Segment information

2022

	Community and public safety	Economic and environmental services	Trading services	Other	Unallocated	Total
Segment revenue						
External revenue from non-exchange transactions	3 727 066	43 573 999	19 439 970	36 200	147 100 153	213 877 388
External revenue from exchange transactions	941 550	211 168	23 983 617	1 343 285	2 782 214	29 261 834
Interests on investments	-	-	-	-	3 981 989	3 981 989
Interest earned from receivables	55 269	-	2 823 043	-	1 960 466	4 838 778
Total	4 723 885	43 785 167	46 246 630	1 379 485	155 824 822	251 959 989
Segment expenses						
Total segment expenses	22 694 581	19 371 138	30 420 751	2 902 851	93 957 466	169 346 787
Depreciation and amortisation	3 013 369	11 694 916	340 290	-	2 674 369	17 722 944
Loss on disposal of assets	-	-	-	-	6 778 983	6 778 983
Impairment losses on financial assets	-	-	(137 033)	-	11 360 493	11 223 460
Interest expense	-	-	-	-	13 810	13 810
Total	25 707 950	31 066 054	30 624 008	2 902 851	114 785 121	205 085 984
Surplus for the year	(20 984 065)	12 719 113	15 622 622	(1 523 366)	41 039 701	46 874 005
Other information						
Segment assets	4 012 561	(368 804 159)	(1 649 365)	-	953 147 729	586 706 766
Segment liabilities	1 581 593	9 388 676	4 586 744	1 008 204	50 042 796	66 608 013
Total capital expenditure	3 399 810	1 561 732	600 792	-	51 599 304	57 161 638

Other information

Segment assets	4 012 561	(368 804 159)	(1 649 365)	-	953 147 729	586 706 766
Segment liabilities	1 581 593	9 388 676	4 586 744	1 008 204	50 042 796	66 608 013
Total capital expenditure	3 399 810	1 561 732	600 792	-	51 599 304	57 161 638

Directive 3 transitional provisions for GRAP 18 (Segment reporting) allows comparative figures not to be disclosed in the first year of adoption. The Municipality has elected to take advantage of the provisions of Directive 3.

2021

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Notes to the Annual Financial Statements

Figures in Rand	2022				2021	
54. Segment information (continued)						
	Community and public safety	Economic and environmental services	Trading services	Other	Unallocated	Total
Segment revenue						
External revenue from non-exchange transactions	1 007 711	45 702 055	3 336 972	25 350	189 094 389	239 166 477
External revenue from exchange transactions	1 452 229	89 781	21 408 846	1 551 675	2 308 511	26 811 042
Interests on investments	-	-	-	-	2 273 913	2 273 913
Interest earned from receivables	168 218	-	2 495 204	-	1 608 405	4 271 827
Total	2 628 158	45 791 836	27 241 022	1 577 025	195 285 218	272 523 259
Segment expenses						
Total segment expenses	15 123 700	27 542 098	29 532 958	3 873 092	91 748 302	167 820 150
Depreciation and amortisation	1 299 046	10 870 575	8 544	-	4 159 245	16 337 410
Loss on disposal of assets	-	-	-	-	49 966 479	49 966 479
Impairment losses on financial assets	-	-	(4 807 085)	-	2 272 456	(2 534 629)
Interest expense	-	-	-	-	1 366 301	1 366 301
Total	16 422 746	38 412 673	24 734 417	3 873 092	149 512 783	232 955 711
Surplus for the year	(13 794 588)	7 379 163	2 506 605	(2 296 067)	45 772 435	39 567 548
Other information						
Segment assets	17 355 364	(136 712 384)	(8 510 313)	336 449	661 423 730	533 892 846
Segment liabilities	4 470 705	27 119 356	780 816	375 363	32 367 422	65 113 662
Total capital expenditure	17 272 540	38 581 470	1 026 772	336 449	61 351 472	118 568 703

Directive 3 transitional provisions for GRAP 18 (Segment reporting) allows comparative figures not to be disclosed in the first year of adoption. The Municipality has elected to take advantage of the provisions of Directive 3.

Segment surplus or deficit, assets and liabilities

By function

2022

	Statement of financial performance			Statement of financial position
	Total segment revenue	Total segment expenditure	Total segment surplus/ (Deficit)	Total segment capital expenditure
Governance and administration				
Executive and council	6 645 650	30 195 246	(23 549 596)	-
Finance and administration	151 925 172	86 361 148	65 564 024	90 894 016
Internal audit	-	507 827	(507 827)	-
Community and public safety				
Community and social services	3 733 900	17 292 792	(13 558 892)	-
Sport and recreation	164	3 921 466	(3 921 302)	-
Public safety	989 821	2 149 268	(1 159 447)	-
Housing	-	2 344 426	(2 344 426)	-

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022		2021	
54. Segment information (continued)				
Economic and environmental services				
Planning and development	37 583 588	27 314 864	10 268 724	-
Road transport	6 201 579	3 751 188	2 450 391	-
Trading services				
Energy sources	34 590 175	21 833 266	12 756 909	-
Waste water managment	-	1 495 292	(1 495 292)	-
Waste managment	11 656 457	7 295 447	4 361 010	-
Other				
Other	1 379 484	2 902 852	(1 523 368)	-
Total	254 705 990	207 365 082	47 340 908	90 894 016

2021

	Statement of financial performance			Statement of financial position
	Total segment revenue	Total segment expenditure	Total segment surplus/ (Deficit)	Total segment capital expenditure
Governance and administration				
Executive and council	8 010 844	28 676 609	(20 665 765)	-
Finance and administration	187 274 373	119 466 490	67 807 883	44 975 297
Internal audit	-	930 889	(930 889)	-
Community and public safety				
Community and social services	1 068 642	11 201 449	(10 132 807)	-
Sport and recreation	-	1 739 269	(1 739 269)	-
Public safety	342 125	2 128 912	(1 786 787)	-
Housing	1 217 391	1 353 117	(135 726)	-
Economic and environmental services				
Planning and development	43 496 260	27 336 730	16 159 530	-
Road transport	2 295 575	11 075 939	(8 780 364)	-
Trading services				
Energy sources	17 383 320	24 162 442	(6 779 122)	-
Waste water managment	-	1 797 653	(1 797 653)	-
Waste managment	9 857 702	(1 225 676)	11 083 378	-
Other				
Other	1 577 025	3 873 094	(2 296 069)	-
Total	272 523 257	232 516 917	40 006 340	44 975 297

55. Key judgements and sources of estimation uncertainty

In the application of the municipality's accounting policies, which are described above, management is required to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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55. Key judgements and sources of estimation uncertainty (continued)

55.1. Judgements

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in the annual financial statements:

Materiality

Materiality is judged by reference to the size and nature of the item. The deciding factor is whether the omission or misstatement could, individually or collectively, influence the decisions that users make on the basis of these annual financial statements.

In preparation of the annual financial statements, materiality has been considered in:

- Deciding what to report in the annual financial statements and how to present it.
- Assessing the effect of omissions, misstatements and errors on the annual financial statements

In assessing whether an item, transaction or event is material, specific thresholds for specific items, transactions and events, or aggregations thereof has been developed. These thresholds are used to make decisions about the reporting of information (i.e. how to recognise, measure, present and disclose items, transactions and events), and used as a margin of error or framework within which to assess misstatements and errors.

The municipality has also considered whether certain transactions or balances may be qualitatively material based on the inherent characteristics thereof, even though the transaction or balance is quantitatively immaterial, if:

- The item, transaction or event relates to legal or regulatory requirements.
- Related party transactions.
- The regularity or frequency with which an item, transaction or event occurs.
- The item, transaction or event results in the reversal of a trend.
- The item, transaction or event is likely to result in a change in accounting policy.
- The commencement of a new function, or the reduction or cessation of an existing function.
- The degree of estimation or judgement that is needed to determine the value of an item, transaction or event.
- An item, transaction or event that affects the going concern assumption of the municipality.

55.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

56. GRAP 3 adjustments

The following restatements and adjustments occurred which are set out below:

EMALAHLENI MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

56. GRAP 3 adjustments (continued)

56.1 Adjustments of Statement of financial position items

2022

	Note	Previously reported	Correction of error	Re-classification	Restated
Assets					
Current assets					
Receivables from exchange transactions	4	714 250	5 564 439	-	6 278 689
Other current assets	6	4 271 778	-	(2 810 017)	1 461 761
VAT receivable	7	-	1	2 810 017	4 844 483
		4 986 028	5 564 440	-	12 584 933
Non-current assets					
Investment property	8	4 144 681	(1 777 995)	-	2 366 686
Property, plant and equipment	9	464 690 354	(25 435 022)	-	439 255 332
		468 835 035	(27 213 017)	-	441 622 018
Total assets		473 821 063	(21 648 577)	-	454 206 951
Net assets and liabilities					
Current liabilities					
Consumer deposits	12	-	-	77 192	77 192
Payables from exchange transactions	14	14 909 892	(1 642)	(77 192)	14 831 058
Other current liabilities		-	(289 567)	-	(289 567)
		14 909 892	(291 209)	-	14 618 683
Total net assets					
Accumulated surplus		479 492 377	(21 244 865)	(1)	458 247 511
Total net assets and liabilities		494 402 269	(21 536 074)	(1)	472 866 194

56.2 Adjustments of Statement of financial performance items

2022

	Note	Previously reported	Correction of error	Re-classification	Restated
Revenue					
Exchange revenue					
Impairment recovery	39	-	16 936 244	-	16 936 244
Expenditure					
Employee related cost	28	(88 557 440)	3 036 540	-	(85 520 900)
Remuneration of councillors	29	(13 238 766)	(203 540)	-	(13 442 306)
Depreciation, amortisation and impairment	30	(34 340 321)	3 601 296	-	(30 739 025)
Transfers and subsidies	35	(348 625)	(2 916 871)	-	(3 265 496)
Operational Cost	36	(22 824 161)	(587 750)	-	(23 411 911)
Loss on disposal of assets	38	(275 633)	(47 553 846)	-	(47 829 479)
Actuarial loss	39	-	(2 137 000)	-	(2 137 000)
Total expenditure		(159 584 946)	(46 761 171)	-	(206 346 117)

56.3 GRAP 3 adjustment narrations

The following GRAP 3 adjustments occurred:

EMALAHLENI MUNICIPALITY

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Notes to the Annual Financial Statements

56. GRAP 3 adjustments (continued)

VAT receivable

In the 2020/21 financial statements, the VAT receivable was included in current assets as a part of Other assets. The Vat receivable has been reclassified and shown as a separate line in the current year.

Nature of error

Vat receivable	-	2 810 017
Other current assets	-	(2 810 017)
	-	-

Receivables from exchange transactions

In the prior year, receivables from exchange transactions had material errors made in the provision for debt impairment. The correction of the error resulted in an increase adjustment of R 10 002 827 (from a decrease in the provision) and a corresponding increase in the impairment recovery in the income statement.

Nature of error

Provision for debt impairment	-	(10 002 827)
Impairment recovery	-	9 906 933
	-	(95 894)

Other current assets

In the 2020/21 financial statements, the VAT receivable was included in current assets as a part of Other assets. The Vat receivable has been reclassified and shown as a separate line in the current year.

Nature of error

Other current asset	-	(2 810 017)
VAT receivable	-	2 810 017
	-	-

Investment property

During the 2020/21 statutory audit, investment property had material errors and the process followed by the municipality to correct the investment property resulted in a decrease in investment property of R 1 886 798 in the statement of financial position and a corresponding increase in loss on disposals in the statement of financial performance.

Nature of error

Investment property	-	(1 886 798)
Loss on disposal of assets	-	1 886 798
	-	-

Property, plant and equipment

During the 2020/21 statutory audit, property, plant and equipment had material errors and the process followed by the municipality to correct the property, plant and equipment resulted in a decrease in property, plant and equipment of R 25 435 022,30 in the statement of financial position and a corresponding increase in loss on disposals in the statement of financial performance.

The errors were due to the misalignment of the fixed asset register with the general ledger. The adjustments processed were as a result of alignment of the general ledger to the fixed asset register.

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

56. GRAP 3 adjustments (continued)

Nature of error

Property, plant and equipment	-	(25 435 022)
Loss on disposal of assets	-	25 435 022
	-	-

Consumer deposits

In the 2020/21 financial statements, the Consumer deposits were included in as a part of payables from exchange transactions. The consumer deposits has been reclassified and shown as a separate line in the current year.

Nature of error

Consumer deposits	-	77 192
Payables from exchange transactions	-	(77 192)
	-	-

Payables from exchange transactions

In the 2020/21 financial statements, the Consumer deposits were included in as a part of payables from exchange transactions. The consumer deposits has been reclassified and shown as a separate line in the current year.

Nature of error

Payables from exchange transactions	-	(77 192)
Consumer deposits	-	77 192
	-	-

57. Budget information

Explanation of variances between approved and final budget amounts

The reasons for the variances between the approved and final budgets are mainly due to reallocations made within the approved budget parameters allowed for by the Virement Policy of EMALAHLENI MUNICIPALITY as approved by Council.

Explanation of variances greater than 10%: Final Budget and Actual Amounts.

57.1. Statement of financial performance

Revenue from exchange transactions

- The actual amount for service charges is 28% above the budgeted amount. This is due to the budget being based on realistically realisable revenues while the actual amount is derived from the billing, which is not necessarily an indication of the amount the municipality receipted from service charges.
- Other own revenue is 632% more than the budgeted amount. The biggest contributors to the variance is interest on overdue accounts.

Expenditure

- Employee cost actual amount is 11 percent lower than the budgeted amount due to the vacancies of budgeted positions which have not been filled.
- Actual finance cost is 23 percent of the budgeted amount due to the municipality budgeting for a finance lease. Once the lease was entered into, it was an operating lease which means that there are no finance costs to be recorded.
- Transfers and subsidies are 86 percent of budgeted amount due to savings made during the year.
 - Other expenditure is 85% of the budgeted amount due to the municipality's efforts to curb spending.

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Notes to the Annual Financial Statements

58. Events after the reporting date

The municipality appointed the director community services Mr Malusi Gatyeni after reporting date who commenced his duties on 1st August 2022. The financial impact of the appointment is his monthly salary.

During the year, a burglary took place at one of the municipal buildings and the municipality suffered losses due to theft. A fire took place at Indwe Resort where 4 chalets and contents were destroyed by the fire. An insurance claim was lodged by the municipality. The municipality signed and accepted agreement of loss from the insurance after reporting date for both the fire that took place at Indwe Resort and a vehicle that was lost and not recovered from a burglary that took place during the year. The financial impact of signing the agreement is an increase in economic benefits of R 749 927.97 and R 199 200 respectively.